# Impro

鷹普精密工業有限公司

Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1286

# 2020

## ANNUAL REPORT

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# About Us

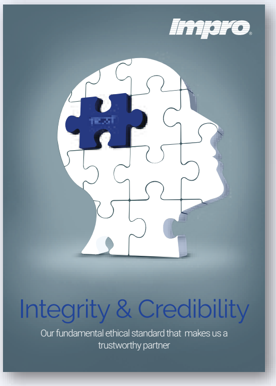
## *Impro Mission*

To be the global leader in high precision, high complexity, mission-critical components and solutions; and to be a reliable, flexible and global business partner to industry leaders.

## *Impro Vision*

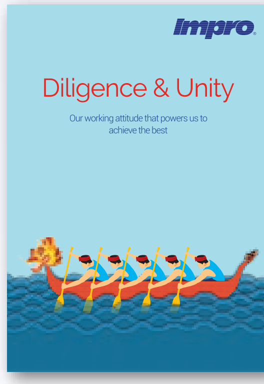
To be an enterprise truly valued by our customers, stockholders, employees, and the society at large.

# Impro Core Values



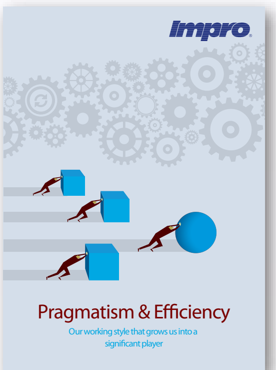

## Integrity and Credibility

It means following through on the promises we make, and conducting business ethically and responsibly. At Impro, this is a critical element of everything we do. It guides our every action and reinforces our commitment to honesty, transparency, business ethics and regulatory compliance, both within our company and in the outside world.




## Diligence and Unity

It means not only committing to one's work but also ensuring that the work one does is done thoroughly. It also means that collaboration is our route to success. We believe that creating team-based work will enable individuals to contribute in their areas of strength and improve in areas where development is needed. At Impro, Diligence underlies all of our work processes; through Unity, we can achieve more than through working alone.




## Pragmatism and Efficiency

It means being practical in all situations, driving towards results and minimizing non-value added activities. At Impro, Pragmatism is the roadmap to execution, and Efficiency drives all of our actions. It frames the way we view our path forward and enables us to achieve results by seeing each challenge as it really is. It means that we minimize waste of all sorts, including duplicate processing or downtime.


## Pursuit of Excellence and Innovation

It means always paying careful attention to detail, looking for ways to improve on activities done in the past and challenging conventions and thinking outside of the box in all areas of the business. At Impro, the Pursuit of Excellence sets us apart. We're committed to putting all our efforts into every task we undertake, and making sure that we strive for perfection. Innovation allows us to reframe problems and see solutions that others may not see. It is the way we continuously improve.

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. LU Ruibo
*(Chairman and Chief Executive Officer)*
Ms. WANG Hui, Ina
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Kwok Kuen Harry
Dr. YEN Gordon
Mr. LEE Siu Ming

## AUDIT COMMITTEE

Mr. YU Kwok Kuen Harry *(Chairman)*
Dr. YEN Gordon
Mr. LEE Siu Ming

## REMUNERATION COMMITTEE

Mr. LEE Siu Ming *(Chairman)*
Mr. YU Kwok Kuen Harry
Mr. LU Ruibo

## NOMINATION COMMITTEE

Mr. LU Ruibo *(Chairman)*
Dr. YEN Gordon
Mr. LEE Siu Ming

## SUSTAINABILITY COMMITTEE

Dr. YEN Gordon *(Chairman)*
Mr. LEE Siu Ming
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

## AUTHORIZED REPRESENTATIVES

Mr. LU Ruibo
Mr. IP Wui Wing Dennis

## COMPANY SECRETARY

Mr. IP Wui Wing Dennis, *CPA*

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 803, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 18, Furong Road 5
Xishan Economy Development Zone
Wuxi City, Jiangsu Province
PRC

## LEGAL ADVISER AS TO HONG KONG LAW

Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

## AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
Central, Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited
Citibank, N.A., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Limited
Industrial and Commercial Bank of China Limited

## COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited
40/F Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

## WEBSITE

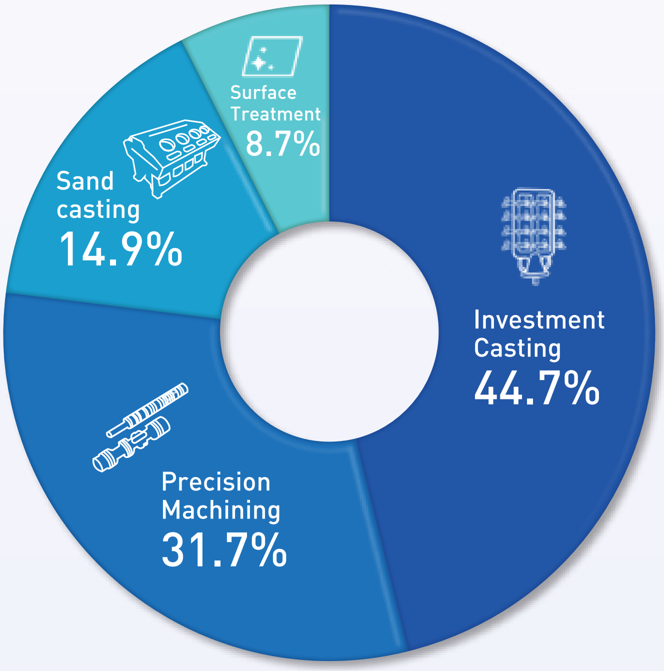
www.improprecision.com

# Corporate Profile

Impro Precision Industries Limited, was founded in 1998 in Wuxi City and its global headquarters was moved to Hong Kong in 2011. The Group is a global top 10 manufacturer of high-precision, high-complexity and mission-critical casting and machined components for diverse end-markets. According to the Roland Berger Report, the Group was the world's 7th largest independent and China's largest investment casting manufacturer and also the world's 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2018. The Group is also one of the few domestic suppliers offering one-stop solutions, including initial research and development, tooling design and manufacturing, casting, heat treatment, secondary machining and surface treatment. The Group has established long-term strategic cooperative relationships with a number of globally recognized industry leaders, selling its products to more than 30 countries and regions.

- ***World's 7th Largest Independent and China's largest Investment Casting manufacturer***
- ***World's 4th Largest Precision Machining company*** in the end-markets of automotive, aerospace and hydraulics
- ***Vertical integrated one-stop solutions provider*** including initial research and development, tooling design and manufacturing, casting, heat treatment, secondary machining and surface treatment

## REVENUE BY BUSINESS SEGMENT




2020 Group Revenue: ***HK$2,924.6 Million***
2016 – 2020 CAGR : ***3.5%***

# Corporate Profile

## EMPLOYEES WORLDWIDE

*6,100+* employees, including *600+* engineers around the world

## CUSTOMERS

*1,000+* customers located in *30+* countries and regions worldwide

## SKUs

- *1,300+* new SKUs co-developed with customers in 2020
- *8,000+* active SKUs, 1,000+ from Aerospace end-market

## PATENTS

- *49* new patent applications in 2020
- *Total 341* registered patents, covering certain key technologies used in our production process


★ **Headquarters** ● **19 Production Facilities** ■ **9 Sales Offices** ▲ **Logistics and Warehousing Capacities**

Impro Precision has established global footprint of 19 production facilities in China, Turkey, Germany, the Czech Republic and Mexico (14 of which are in operation and 5 are under construction), which are supported by 9 sales offices in Mainland China, America, Luxembourg, Germany, Turkey and Hong Kong, as well as warehousing capacities in China, America, Luxembourg and Turkey.

# Business Profile

## INVESTMENT CASTING

Investment casting is the Group's largest business segment which accounted for 44.7% of the Group's revenue for the year ended 31 December 2020. Investment casting is a metal forming process that normally involves using a wax pattern surrounded in a ceramic shell to form a ceramic mold. Once the ceramic shell is dry, the wax is melted out and the ceramic mold is formed. Molten metal is then poured into the ceramic mold to form a casting component. The ceramic mold is subsequently removed, and the casting components are created. Some investment castings require a secondary machining process after casting. Investment casting is usually used to produce parts and components in complex shape with high precision and surface requirement.

The Group particularly focuses on high-precision, high-complexity and mission-critical investment casting component. The Group currently manufactures investment casting components from four different plants in China, two plants in Germany and one plant in Czech Republic. In 2020, investment casting components are sold to all of end-markets, including automotive, industrial & others, and aerospace & medical, with over half of the Group's investment casting products sold to Americas, and to a less extent in Europe and Asia including China.

## PRECISION MACHINING

Precision machining is the second largest business segment of the Group which accounted for 31.7% of the Group's revenue for the year ended 31 December 2020. It is a process that involves using computer numerical controls and other machines and tools to drill or shape metal components with highly precise specifications used in various finished products. Precision machining is performed on bar stocks and other formed materials sourced from global third-party suppliers.

The Group currently manufactures precision machining components from two plants in Turkey, one plant in China and one plant in Mexico. The Group manufactures precision-machined components for sale mainly to the automotive end-markets, and to a less extent hydraulic equipment and aerospace end-markets, with the focus on the high-end precision machining industry. In 2020, around half of the precision machining products are sold to Europe, and the remaining are split between Americas and Asia including China.

# Business Profile

## SAND CASTING

Sand casting is the third largest business segment of the Group which accounted for 14.9% of the Group's revenue for the year ended 31 December 2020. Sand casting is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand, and molten metal is poured into the mold cavity for solidification. The sand shell is subsequently removed after the metal components are cooled and formed. Certain sand casting components require a secondary machining process after casting. Sand casting is mainly used in the manufacturing of structural metal components.

The Group currently manufactures sand casting components from its Plant 6 and Plant 7 in China. The Group manufactures sand casting components mainly for sale to the high horsepower engine and construction equipment end-markets. In 2020, about half of the Group's sand casting components are sold to Americas, a third to Asia including China and the remaining to Europe.

## SURFACE TREATMENT

Surface treatment is the fourth largest business segment of the Group which accounts for 8.7% of the Group's revenue for the year ended 31 December 2020. The Group provides surface treatment services mainly through electroplating which is a process used to change the surface properties of a metal part by adding a metal coating onto its surface through the action of electric current. The Group's electroplating services can be broadly divided into functional electroplating process which improves the conductivity, wear resistance and corrosion resistance of the components and hence is critical to the functions of the components, and decorative electroplating, where the electroplating process is performed mainly for decorative purposes.

The Group currently provides surface treatment service from our Plant 4 and Plant 8 in China. In 2020, most of our surface treatment customers are from China passenger car end-market, and to a less extent aerospace end-market customers in China.

## OUR END-MARKETS

Our products and services are widely applied to various end-markets, including passenger cars, commercial vehicles, high horsepower engines, hydraulic equipment, construction equipment, agricultural equipment, recreational boats and vehicles, aerospace and medical.

The following table sets forth our main products by end-market:

| End-market | Main business segments | Main products/services |
|---|---|---|
| Passenger car | Investment casting, precision machining and surface treatment | Components for fuel system, exhaust gas recirculation system ("EGR") systems, turbo chargers, transmission systems and body systems; electroplating services for brake systems, fasteners, steering systems, emission systems, and decorative components |
| Commercial vehicle | Investment casting and precision machining | Components for fuel systems, EGR systems, turbo chargers, transmission systems, and emission systems |
| High horsepower engine | Investment casting and sand casting | Components for fuel systems, engine blocks, cylinder heads, emission systems for distributed energy gas engines |
| Hydraulic equipment | Precision machining and sand casting | Spools for hydraulic valves, pistons for hydraulic motors, sleeves for hydraulic motors, and hydraulic valve bodies |
| Construction equipment | Investment casting and sand casting | Components for fuel systems, electric fuel injection systems, exhaust systems, and transmission systems |

# Business Profile

| End-market | Main business segments | Main products/services |
| --- | --- | --- |
| Agricultural equipment | Investment casting, precision machining and sand casting | Components for transmission systems, engine systems, and emission systems for combine-harvesters, seeders and tractors |
| Recreational boat and vehicle | Investment casting and precision machining | Components for marine engines and steering systems, components for motorcycle brakes and transmission systems |
| Aerospace | Investment casting, precision machining and surface treatment | Components for air and fuel systems, aircraft engine systems, hydraulic systems, flight control systems, environment control systems, landing control systems, and auxiliary power units; cadmium plating for aerospace structural parts, hard chrome plating for air and fuel systems and engine parts, anodizing and chemical film of components for fuel systems, engine systems, hydraulic systems and flight control systems |
| Medical | Investment casting, precision machining and sand casting | Components for surgical instruments, medical diagnosis equipment, biosystem equipment, prosthetics and patient handling equipment |

# 2020 Key Milestones

**JULY 2020**

Established "the Sustainability Committee"

Won SANY "Excellence Supplier Award" at the 18th SANY supplier conference

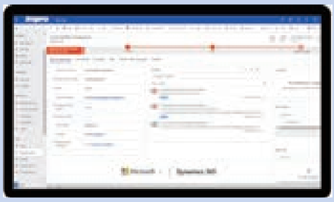

Awarded "2020 GE Aviation Joint Affiliates Supplier Quality Award of Excellence"

**AUG 2020**


Awarded "AS9100 Certification (Aviation Quality Management System)"

**OCT 2020**


Awarded the certificate of "recognition for outstanding performance, speed, flexibility and overall services" by Emerson



Launch of Impro Customer Relationship Management System (CRM)

**DEC 2020**

Groundbreaking Ceremony of South District of Impro Xishan Base

**JAN 2021**

Won Cummins "Award of Excellent Support"

# Financial Highlights

| HK$ million | Year ended 31 December 2020 | 2019 | Change |
|---|---|---|---|
| Revenue | 2,924.6 | 3,640.2 | -19.7% |
| Gross profit | 767.3 | 1,131.5 | -32.2% |
| Gross profit margin | 26.2% | 31.1% | -4.9% |
| (Loss)/profit attributable to shareholders of the Company | (148.2) | 538.8 | -127.5% |
| Adjusted profit attributable to shareholders of the Company[1] | 313.4 | 575.7 | -45.6% |
| (Loss)/earnings per share – Basic (HK cents) | (7.9) | 31.8 | -124.8% |
| Adjusted basic earnings per share (HK cents) | 16.6 | 34.0 | -51.2% |
| EBITDA[2] | 356.7 | 1,082.8 | -67.1% |
| EBITDA margin | 12.2% | 29.7% | -17.5% |
| Adjusted EBITDA[3] | 801.9 | 1,101.5 | -27.2% |
| Adjusted EBITDA margin | 27.4% | 30.3% | -2.9% |
| Free cash inflow from operations[4] | 364.0 | 461.8 | -21.2% |

| HK$ million | As at 31 December 2020 | As at 31 December 2019 | Change |
|---|---|---|---|
| Cash and cash equivalents and pledged deposits | 602.0 | 573.8 | 4.9% |
| Total debt | 853.8 | 1,082.2 | -21.1% |
| Net debt (total debt less cash and cash equivalents and pledged deposits) | 251.8 | 508.5 | -50.5% |
| Total equity | 4,032.9 | 4,027.0 | 0.1% |
| Market capitalization[5] | 4,708.2 | 6,026.5 | -21.9% |
| Enterprise value[6] | 4,979.8 | 6,550.0 | -24.0% |
| **Key Financial Ratios** | | | |
| Adjusted return on equity[7] | 7.8% | 17.2% | |
| Enterprise value to adjusted EBITDA | 6.2 | 5.9 | |
| Net debt to adjusted EBITDA | 0.3 | 0.5 | |
| Net gearing ratio | 6.2% | 12.6% | |
| Interest coverage (adjusted for impairment loss of goodwill and other assets) | 11.6 | 9.2 | |

Notes:

1 Reconciliation of (loss)/profit for the year to adjusted profit attributable to shareholders of the Company (non-IFRS measure) :

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$' million | 2019<br>HK$' million |
| (Loss)/profit for the year | (144.3) | 539.0 |
| Adjustments: | | |
| – Impairment loss of goodwill and other assets, net of tax | 444.2 | – |
| – Listing expenses | – | 18.7 |
| – Amortization and depreciation related to purchase price allocation, net of tax | 17.4 | 18.2 |
| Adjusted profit for the year | 317.3 | 575.9 |
| Less: profit attributable to non-controlling interest | (3.9) | (0.2) |
| Adjusted profit attributable to shareholders of the Company | 313.4 | 575.7 |

2 Earnings before interest, tax, depreciation and amortization.

3 Adjusted EBITDA represents EBITDA added back impairment loss of goodwill and other assets and listing expenses for the years ended 31 December 2020 and 2019.

Reconciliation of EBITDA to adjusted EBITDA (non-IFRS measures):

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$' million | 2019<br>HK$' million |
| EBITDA | 356.7 | 1,082.8 |
| Adjustments: | | |
| – Impairment loss of goodwill and other assets | 445.2 | – |
| – Listing expenses | – | 18.7 |
| Adjusted EBITDA | 801.9 | 1,101.5 |

4 Net cash generated from operating activities less net cash used in investing activities but add back cash used in acquisitions (as shown in the caption of "Payment of deferred consideration payable" and "Decrease/(increase) in restricted deposits").

5 Outstanding number of shares multiplied by the closing share price (HK$2.50 per share as of 31 December 2020).

6 Enterprise value is calculated as market capitalization plus non-controlling interest plus net debt.

7 Adjusted return on equity is calculated as adjusted profit attributable to shareholders of the Company divided by the average of total equity attributable to equity shareholders of the Company as of 31 December 2020 and 2019.

# Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I hereby present the annual results of Impro Precision Industries Limited (the "**Company**", together with its subsidiaries, the "**Group**" or the "**Impro Group**") for the year ended 31 December 2020.

In 2020, COVID-19 pandemic swept the world, resulting in a sharp decline in international trade, shutting down of enterprises and partial disruption of supply chains, and bringing unprecedented challenges to the global economy. Facing such severe difficulties, the Group made various decisive adjustments during the year to reduce operating costs and strive for market share gain. Meanwhile, the Group expanded our business aggressively in the PRC market and fully strengthened the management of cash flows, and achieved a relatively healthy operating results for the year despite the aforesaid difficult market conditions. During the year ended 31 December 2020, the revenue of the Group amounted to HK$2,924.6 million, representing a decrease of 19.7%, as compared to HK$3,640.2 million for the year ended 31 December 2019. During the year ended 31 December 2020, the Company recorded a loss attributable to the shareholders of the Company (the "**Shareholders**") of HK$148.2 million, primarily due to an impairment loss of goodwill and other assets net of tax expense of HK$444.2 million. Excluding the above impairment loss of goodwill and other assets and other adjustment items, the adjusted profit attributable to the Shareholders of the Company amounted to HK$313.4 million, representing a decrease of 45.6%, as compared to HK$575.7 million for the year ended 31 December 2019. During the year ended 31 December 2020, the free cash inflow amounted to HK$364.0 million, representing 114.7% of adjusted profit for the year.

## OVERVIEW OF OPERATING RESULTS

Since late January 2020, COVID-19 pandemic has brought huge impact on the economy of the PRC and the global economy and led to a temporary production halt in the Group's plants in the PRC. All the Group's plants in the PRC have basically resumed normal production in early March 2020, but the outbreak of COVID-19 in Europe and the American region started from March 2020 and continued throughout the year. As a result, the majority of the Group's customers in Europe and North America reduced production or shut down factories due to pandemic prevention measures in varying degrees, which severely affected the revenue of the Group from such regions. In addition, the trade frictions between the PRC and the U.S. continued during the year, which further undermined customers' confidence in different end-markets and brought major challenges to the Group's business development. However, the relatively rapid recovery of China's economic activities and the Group's strategic efforts to expand the PRC market enabled the Group to achieve positive growth in its revenue from the PRC during the year of 2020.

## Revenue by business segments

During the year ended 31 December 2020, the Group recorded a year-on-year reduction of revenue in varying degrees for all business segments. Among them, revenue derived from the investment casting segment amounted to HK$1,307.0 million, representing a 22.3% decrease from last year, mainly due to the significant impact of COVID-19 on the aerospace end-market. Revenue derived from precision machining segment was HK$926.6 million, a decrease of 17.2% from last year. Sales of automotive parts in Europe and the American region decreased significantly in the first half of 2020, while in the second half of 2020, due to the gradual recovery of demand in the automotive end-market and the mass production of new products for hydraulic equipment customers newly developed in the PRC, orders increased significantly as compared to the first half of the year and the annual revenue decline of this business segment significantly narrowed as compared to the first half of the year. Revenue derived from the sand casting segment was HK$435.2 million, representing a decrease of 22.9% from last year, primarily because of decreasing demand in the end-markets for high horsepower engines and construction equipment in Europe region and the American region. Revenue derived from surface treatment segment was HK$255.8 million, representing a decrease of 6.9% from last year primarily due to shrinking production and sales of the global passenger vehicle market. However, the impact of the revenue decline of this segment was partly offset by the gradual recovery of demand from the automotive end-market in Mainland China in the second half of the year.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | Increase/(Decrease) | |
| **By Business** | HK$ million | Proportion | HK$ million | Proportion | HK$ million | Change |
| Investment casting | 1,307.0 | 44.7% | 1,682.2 | 46.2% | (375.2) | -22.3% |
| Precision machining | 926.6 | 31.7% | 1,118.7 | 30.7% | (192.1) | -17.2% |
| Sand casting | 435.2 | 14.9% | 564.5 | 15.5% | (129.3) | -22.9% |
| Surface treatment | 255.8 | 8.7% | 274.8 | 7.6% | (19.0) | -6.9% |
| **Total** | **2,924.6** | **100.0%** | **3,640.2** | **100.0%** | **(715.6)** | **-19.7%** |

## Revenue by end-markets

The Group sells its products to worldwide customers in a broad range of end-markets, including, among other things, automotive, industrial, aerospace and medical end-markets. The fluctuations in revenue of the Group are largely driven by changing demands in these end-markets. During the year ended 31 December 2020, due to COVID-19 pandemic, all end-markets of the Group were adversely effected by diminished demands. Among them, due to the unprecedented impact of the pandemic on the aerospace industry, the sales of the aerospace end-market declined sharply throughout the year. However, thanks to the steady recovery of the PRC economy and the efforts of the Group in the development of new customers and new products, the revenue from commercial vehicle, hydraulic equipment and recreational boat and vehicle end-markets was relatively stable, with a decrease of less than 5%.

| | **Year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | Increase/(Decrease) | |
| By End Market | HK$ million | Proportion | HK$ million | Proportion | HK$ million | Change |
| **Automotive** | **1,394.2** | **47.7%** | **1,637.5** | **45.0%** | **(243.3)** | **-14.9%** |
| – Passenger Car | 868.6 | 29.7% | 1,100.8 | 30.2% | (232.2) | -21.1% |
| – Commercial Vehicle | 525.6 | 18.0% | 536.7 | 14.8% | (11.1) | -2.1% |
| **Industrial & others** | **1,258.3** | **43.0%** | **1,553.9** | **42.7%** | **(295.6)** | **-19.0%** |
| – High Horsepower Engine | 274.4 | 9.4% | 383.2 | 10.5% | (108.8) | -28.4% |
| – Hydraulic Equipment | 247.7 | 8.5% | 250.9 | 6.9% | (3.2) | -1.3% |
| – Construction Equipment | 178.0 | 6.0% | 218.9 | 6.0% | (40.9) | -18.7% |
| – Agricultural Equipment | 161.5 | 5.5% | 202.2 | 5.6% | (40.7) | -20.1% |
| – Recreational Boat and Vehicle | 124.9 | 4.3% | 130.7 | 3.6% | (5.8) | -4.4% |
| – Others | 271.8 | 9.3% | 368.0 | 10.1% | (96.2) | -26.1% |
| **Aerospace & Medical** | **272.1** | **9.3%** | **448.8** | **12.3%** | **(176.7)** | **-39.4%** |
| – Aerospace | 180.4 | 6.2% | 344.2 | 9.4% | (163.8) | -47.6% |
| – Medical | 91.7 | 3.1% | 104.6 | 2.9% | (12.9) | -12.3% |
| **Total** | **2,924.6** | **100.0%** | **3,640.2** | **100.0%** | **(715.6)** | **-19.7%** |

## Revenue by geographical market

During the year ended 31 December 2020, the decrease in the revenue of the Group was mainly due to the fact that the economic activities in the Americas and Europe region were continuously restricted by the lockdown measures caused by the pandemic, which resulted in a year-on-year decrease of 27.1% and 22.2% in the revenue from the Americas and Europe region, respectively. Meanwhile, the rapid economic recovery of Mainland China amidst the pandemic led to a 1.5% year-on-year increase in the Group's revenue from the PRC.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | Increase/(Decrease) | |
| By Geographical Market | HK$ million | Proportion | HK$ million | Proportion | HK$ million | Change |
| **Americas** | **1,160.5** | **39.7%** | **1,592.5** | **43.8%** | **(432.0)** | **-27.1%** |
| – United States | 1,073.2 | 36.7% | 1,480.3 | 40.7% | (407.1) | -27.5% |
| – Others | 87.3 | 3.0% | 112.2 | 3.1% | (24.9) | -22.2% |
| **Europe** | **932.1** | **31.9%** | **1,197.4** | **32.9%** | **(265.3)** | **-22.2%** |
| **Asia** | **832.0** | **28.4%** | **850.3** | **23.3%** | **(18.3)** | **-2.2%** |
| – the PRC | 780.8 | 26.7% | 769.2 | 21.1% | 11.6 | 1.5% |
| – Others | 51.2 | 1.7% | 81.1 | 2.2% | (29.9) | -36.9% |
| **Total** | **2,924.6** | **100.0%** | **3,640.2** | **100.0%** | **(715.6)** | **-19.7%** |

## MARKET AND BUSINESS REVIEW

In respect of the automotive (passenger car and commercial vehicle) end-market, COVID-19 in 2020 has spread globally, and the global economy has suffered a substantial setback. As a result, the economic activities of many countries have been affected by varying degrees. From the perspective of the automotive industry, the market was hit hard in the first half of the year. Although there were signs of recovery in the second half of the year, global automotive sales volume still fell year-on-year. According to the Automobile Market Research Branch of the China Automobile Dealers Association, global automotive sales volume in 2020 totaled 78.03 million vehicles, representing a year-on-year decrease of 13.1%. Overall, the performance of the Group's automotive end-market during the year was relatively stable. For commercial vehicles, under the stricter emission policies implemented by a number of countries, the demand for parts produced by the Group under high emission standards will continue to increase, and the increase in the PRC will be even more dramatic; for passenger cars, the Group has developed new energy vehicle drive system components in its factories located in Turkey and Mexico, and will start mass production in the coming year. At the same time, the Group will continue to look for new projects related to new energy vehicles.

In respect of industrial and other end-markets, due to the implementation of crowd control and border closures by various countries during the year as a result of the pandemic, some industrial production has come to a standstill; and together with the Sino-US trade tensions, the industrial outlook has become uncertain. However, the industrial sector in the PRC showed a recovery trend in the second half of the year, especially the strong growth of hydraulic equipment which is related to construction machinery in Mainland China, causing the Group's sales of hydraulic equipment parts to rebound significantly in the second half of the year. In addition, the international travel restrictions during the year have just driven more local private high-end tourism, and the demand for recreational boats and vehicles in the Americas has therefore increased. The Group's revenue from these segment end-markets has also steadily recovered.

# Chairman's Statement

In respect of aerospace and medical end-markets, the global aerospace industry suffered an unprecedented hit in 2020. As a result, the Group's revenue from the aerospace end-market declined sharply by 47.6%. COVID-19 vaccine is the key to the recovery of international air travel. However, vaccination did not start until the end of 2020. It is optimistic that international travel will have a chance to recover slowly in the second half of the year. Therefore, the recovery of the aerospace end-market of the Group will be the slower one among its three major end-markets. At the same time, we will continue to use our abundant production capacity to develop new aerospace products. It is expected the number of newly developed SKUs in the aerospace end-market will increase significantly in 2021, which lays the foundation for the rapid growth of the aerospace end-market after the pandemic in the future. For the medical end-market, due to the fact that various countries are focusing on combating the pandemic, a large number of non-emergency surgical operations and treatment progress have been delayed, resulting in a decline in sales of the medical device industry. Although the pandemic has an unexpected negative impact on the medical device industry, as the consumer demand for the medical and health industry in various countries continues to increase, it is expected that medical devices will become the fastest growing industry in the global economic development.

The Group continues to implement the strategy of "Global Footprints" and "Local for Local Manufacturing". Since August 2019, Impro Group has begun to build a new North American production base on its own land in San Luis Potosi, Mexico, namely the Mexico San Luis Potosi Campus ("**Impro Mexico SLP Campus**"), to serve a range of end-markets such as automotive, construction and agricultural equipment, high horsepower engine, hydraulic equipment, and aerospace in North America. Three core production plants located in the Impro Mexico SLP Campus, namely the precision machining plant (a gross floor area of approximately 18,000 square meters for the first phase), the sand casting plant (a gross floor area of approximately 35,000 square meters for the first phase) and the investment casting plant (a gross floor area of approximately 29,000 square meters for the first phase), will be scheduled to be put into production in the second quarter, third quarter and fourth quarter of 2021, respectively; the aerospace parts and surface treatment plant (a gross floor area of approximately 28,000 square meters for the first phase) has also commenced construction and is scheduled to be completed in the fourth quarter of 2021. According to the current plan, upon completion of the first phase of these plants in Mexico, they will be able to generate more than US$150 million in revenue per annum at full capacity. Impro Mexico SLP Campus will not only enhance the Group's production capacity and competitiveness in North America, but also effectively hedge the geopolitical tension risk in international trade, and help the Group continuously cultivate the business growth in the North American market.

In conclusion, the overall economic environment was in a downward trend in 2020. Although the economy has recovered in the second half of the year, there is still fluctuation in the development of the pandemic in U.S. and Europe. Faced with such a dilemma, the Group adjusted its production capacity in a timely manner and carried out internal cost optimization to improve operational performance. At the same time, the Group continued to implement the "Twin Growth Engine" strategy combining with organic growth and strategic acquisitions to strengthen its global presence, seize the opportunities of post-pandemic economic recovery and favorable policies in various countries, and enhance global end-market sales to further increase global market share.

## BUSINESS OUTLOOK

In the past year, the global economy has been hit hard by the pandemic. In such a turbulent year, thanks to the timely adjustments made by the management and the strict control over operating costs and capital expenditures, the Group maintained stable financial position and strong cash flow, and actively developed new customers and new product offerings. During the year, number of newly developed SKUs reached a record high of 1,371, representing an increase of 37.7% as compared with 2019.

Looking forward to 2021, the promotion of vaccination is expected to boost the global economy. In addition, the Group has successfully developed a large number of new product offerings and new customers in 2020. However, there is still uncertainty about the progress of vaccination and the effectiveness of vaccines on pandemic control, thus the Group is optimistic but slightly cautious about the overall business development. As of 28 February 2021, the Group's total order on hand to be fulfilled in the next twelve months amounted to HK$2,623 million, which will provide strong support for the stable growth of its business in future.

In terms of production capacity, the Impro Mexico SLP Campus will be gradually put into production in the future. Its vertically integrated business model are expected to further help customers streamline the supply chain and enhance the Group's comprehensive service capabilities. In addition, the Group has already taken the initiative to deploy its base in Turkey, together with the production plants under construction in Mexico, the production capacity of the Group's production lines can be expanded rapidly, which fulfills the strategy of "Twin Source Production" for customers to reduce potential supply chains and tariffs risks brought by geopolitics.

The Group will also adhere to the corporate core value of "refinement and innovation", continue to enhance research and development capabilities and upgrade technology, and provide diversified customized products and services. In line with the "Twin Growth Engine" and "Twin Source Production" strategies, the Group expects to grow against the trend, consolidate its leading position in the diversified end-markets, continue to focus on high-precision, high-complexity and performance-critical products and provide one-stop solutions to maintain sound financial position and strive to achieve sustainable profit growth.

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to express our gratitude to the Shareholders and business partners for their trust and long-term support to the Group. Moreover, I would also like to express gratitude to the Board, the management of the Company and all employees for their persistent efforts and contributions in the past few years. In 2021, the Company will continue to work tirelessly to create long-term value returns for the Shareholders.

LU Ruibo
*Chairman and Chief Executive Officer*

Hong Kong, 11 March 2021

# Management Discussion and Analysis

## FINANCIAL PERFORMANCE

| HK$ million | Year ended 31 December 2020 | 2019 | Change |
|---|---|---|---|
| **Revenue** | **2,924.6** | **3,640.2** | **-19.7%** |
| **Gross profit** | **767.3** | **1,131.5** | **-32.2%** |
| Gross profit margin | 26.2% | 31.1% | -4.9% |
| Other revenue | 36.6 | 23.4 | 56.4% |
| Other net (loss)/income | (27.8) | 5.5 | -605.5% |
| Impairment loss of goodwill and other assets | (445.2) | – | N/A |
| Selling and distribution expenses | (117.0) | (160.6) | -27.1% |
| Administrative and other operating expenses | (245.9) | (303.3) | -18.9% |
| **(Loss)/profit from operations** | **(32.0)** | **696.5** | **-104.6%** |
| Operating (loss)/profit margin | -1.1% | 19.1% | -20.2% |
| Net finance costs | (20.8) | (58.0) | -64.1% |
| **(Loss)/profit before taxation** | **(52.8)** | **638.5** | **-108.3%** |
| Income tax | (91.5) | (99.5) | -8.0% |
| Adjusted effective tax rate[1] | 23.6% | 15.6% | 8.0% |
| **(Loss)/profit for the year** | **(144.3)** | **539.0** | **-126.8%** |
| Net (loss)/profit margin | -4.9% | 14.8% | -19.7% |
| **Attributable to:** | | | |
| (Loss)/profit attributable to shareholders of the Company | (148.2) | 538.8 | -127.5% |
| Non-controlling interest | 3.9 | 0.2 | 1,850.0% |
| | (144.3) | 539.0 | -126.8% |

Note:

1 Adjusted effective tax rate is computed as below:

| | Year ended 31 December 2020 HK$' million | 2019 HK$' million |
|---|---|---|
| (Loss)/profit before taxation | (52.8) | 638.5 |
| Add: impairment loss of goodwill and other assets | 445.2 | – |
| Adjusted profit before taxation | 392.4 | 638.5 |
| Income tax | (91.5) | (99.5) |
| Add: tax impact on impairment loss of goodwill and other assets | (1.0) | – |
| Adjusted income tax | (92.5) | (99.5) |
| Adjusted effective tax rate | 23.6% | 15.6% |

## FINANCIAL REVIEW

### Revenue

Revenue for the year ended 31 December 2020 decreased by 19.7% compared to last year to HK$2,924.6 million. In local currencies, the Group's revenue decreased by 19.8% compared to last year while RMB depreciated and EUR appreciated against Hong Kong Dollars by 1.0% and 1.4% respectively as compared to 2019.

### Gross profit and gross profit margin

The Group's gross profit decreased by HK$364.2 million, or 32.2% to HK$767.3 million for the year ended 31 December 2020 as compared to HK$1,131.5 million for the year ended 31 December 2019. The gross profit of investment casting business had experienced a decline of HK$184.5 million, or 33.2% to HK$371.4 million during the year. The gross profit of the precision machining business also suffered from a drop of HK$98.2 million, or 32.2% to HK$206.9 million. Similarly, the gross profit of the sand casting business decreased by HK$75.7 million, or 41.1% to HK$108.3 million during the year, and the gross profit of the surface treatment business also decreased by HK$5.9 million, or 6.8% to HK$80.7 million during the year.

The Group's gross profit margin was 26.2% for the year ended 31 December 2020, compared with 31.1% in last year. The decrease in gross profit margin was mainly attributable to lower customer demand of our products, especially on higher margin products in investment casting and sand casting segment, and lower production capacity utilization and temporary factory shutdown during the year.

### Other revenue

During the year ended 31 December 2020, the Group's other revenue increased by HK$13.2 million to HK$36.6 million (2019: HK$23.4 million). Other revenue mainly represented discretionary incentives from the local PRC government on our contribution in technology development, environment protection and contribution to local PRC economy.

### Other net (loss)/income

The Group recorded other net loss of HK$27.8 million for the year ended 31 December 2020 (2019: other net income of HK$5.5 million). Other net loss mainly represented the net foreign exchange losses arising from the fluctuations of Turkish Lira, Euro and RMB against Hong Kong Dollars and in particular, due to the sharp appreciation of RMB against Hong Kong Dollars during the second half of 2020.

# Management Discussion and Analysis

## Impairment loss of goodwill and other assets

Since the outbreak of COVID-19 pandemic throughout Europe and North America in March 2020, most of the Group's European and North American customers implemented various extent of plant shutdowns, which reduced the Group's revenue and operating profit significantly. The Board believed that the high unemployment rate in the short-and-medium period, fuelled by COVID-19 globally, and the threat of a potential second or third wave of COVID-19 would undermine consumers' confidence continually. While growth in demand was anticipated for the medium-and-long-term period, the global impact of the pandemic on two main plants acquired by the Group in 2014 from certain independent third parties that primarily serve the automotive market (a precision machining plant in Turkey and a surface treatment plant in Nantong, China) has been immediate. Taking into account the combined impact of the expected slow recovery from market conditions and industry outlook, and in accordance with international accounting standards, the Board engaged an independent third party valuer to conduct a valuation of goodwill and other assets in the Group's balance sheet as at 30 June 2020 and revised financial budgets used in the value-in-use calculations.

The recoverable amount of the cash-generation units ("CGU") is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board covering a five-year period. Key assumptions used for the value in use calculations are the budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the five-year projection period and the discount rate.

Budgeted EBITDA growth rate in the five-year projection period was estimated taking into account of revenue, gross margins and operating expenses based on past performance and its expectation for market development. Due to the unprecedented economic impact of COVID-19, industry forecasts for demand in automotive end markets has reduced significantly. The management of the Group has revised the financial budgets of Shenhai Group and Cengiz Makina based on the actual performance for the first six months of 2020, with reference to current market conditions and the industry outlook, when performing the impairment testing of goodwill and other assets as of 30 June 2020. Pursuant to the revised financial budgets, budgeted EBITDA for the year ending 31 December 2020 were expected to decrease by 26.7% and 43.6% for Shenhai Group and Cengiz Makina respectively compared to the 2020 budgeted EBITDA made in prior year. The budgeted EBITDA growth rate were expected to grow at an average rate by 7.8% and 16.7% annually until 2025 (31 December 2019: 13.7% and 8.5% annually until 2024) for Shenhai Group and Cengiz Makina respectively, with a perpetual growth rate of 2% (31 December 2019: 2%) thereafter for both Shenhai Group and Cengiz Makina as at 30 June 2020.

The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU. The cash flows were discounted using pre-tax discount rate of 12.5% and 14.5% (31 December 2019: 12.3% and 13.7%) for Shenhai Group and Cengiz Makina respectively as at 30 June 2020.

The result indicated that the estimated recoverable amount of the CGUs of Shenhai Group and Cengiz Makina were lower than their carrying amounts by HK$230.1 million and HK$215.1 million respectively as at 30 June 2020. Accordingly, impairment loss of HK$440.0 million was allocated to fully write off the goodwill of the CGUs and impairment loss of HK$5.2 million was allocated pro rata to other assets in the CGUs, on the basis of the carrying amount of each asset in the CGUs for the six months ended 30 June 2020. The Board further assessed the impairment review of other assets and considered that there is no material change in the previously recognised loss as of 31 December 2020.

## Selling and distribution expenses

The Group's selling and distribution expenses decreased by 27.1% to HK$117.0 million for the year ended 31 December 2020 from last year of HK$160.6 million. Apart from the decrease in revenue of 19.7% during the year, the decrease was due to a lower U.S. special custom duties expenses paid by the Group which amounted to HK$17.3 million (2019: HK$25.6 million) as a result of lower sales made to United States and refund of certain special custom duties from U.S. Customs during the year. Selling and distribution expenses to revenue ratio was 4.0% for the year (2019: 4.4%).

## Administrative and other operating expenses

The Group's administrative and other operating expenses decreased by HK$57.4 million, or 18.9%, to HK$245.9 million for the year ended 31 December 2020, as compared to HK$303.3 million for the year ended 31 December 2019. Excluding the listing expenses of HK$18.7 million incurred in last year, the Group's administrative and other operating expenses actually decreased by 13.6% or HK$38.7 million as the Group continued to aggressively optimize its overhead cost.

## Net finance costs

The Group's net finance costs decreased significantly to HK$20.8 million for the year ended 31 December 2020 from HK$58.0 million for the year ended 31 December 2019. The decrease was mainly attributable to the repayment of bank loans and lower borrowing interest rate during the year.

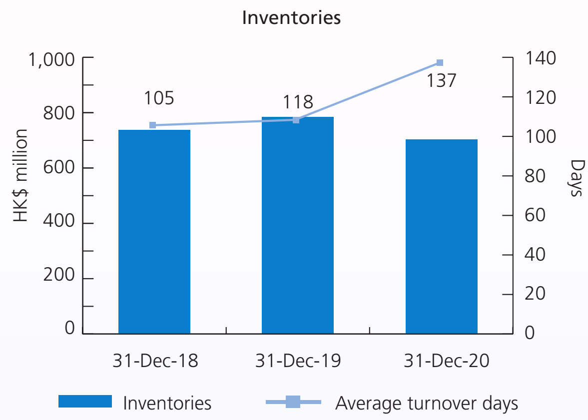
## Income tax

The Group's income tax expenses decreased to HK$91.5 million for the year ended 31 December 2020 from HK$99.5 million for the year ended 31 December 2019. A higher adjusted effective tax rate during the year was mainly due to tax effect of an increase in exchange gain arising from different functional and tax filing currency of HK$13.5 million and the provision of withholding tax on undistributable profits of Cengiz Makina of HK$11.7 million during the year.

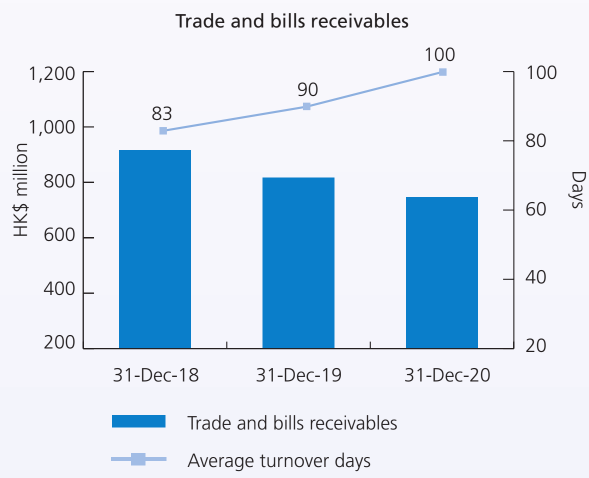
## Working capital

| | As at 31 December 2020 HK$ million | As at 31 December 2019 HK$ million |
|---|---|---|
| Inventories | 705.3 | 785.8 |
| Trade and bills receivables | 748.1 | 816.0 |
| Prepayments, deposits and other receivables | 74.3 | 76.3 |
| Trade payables | (280.1) | (284.2) |
| Other payables and accruals | (196.2) | (259.0) |
| Deferred income | (59.4) | (57.0) |
| Defined benefit retirement plans obligation | (77.8) | (67.8) |
| **Total working capital** | **914.2** | **1,010.1** |

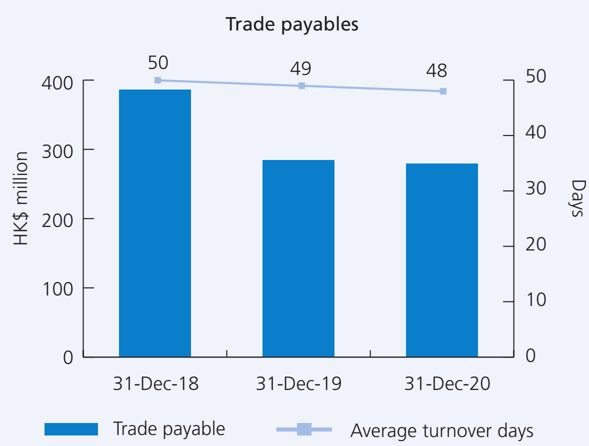
**Inventories** decreased HK$80.5 million to HK$705.3 million as of 31 December 2020 (31 December 2019: HK$785.8 million) mainly due to efforts to reduce the level of finished goods and work in progress in order to efficiently managing the working capital and to reduce unnecessary storage cost during the year. Nevertheless, there was an increase in average inventory turnover days from 118 days as at 31 December 2019 to 137 days as at 31 December 2020 mainly due to increase in raw materials holding to secure raw material supply at relatively bargained price and increased production to cope with the recovery of customers' demand towards year end.




**Trade and bills receivables** decreased HK$67.9 million to HK$748.1 million as of 31 December 2020 (31 December 2019: HK$816.0 million) as the Group continued to make efforts on the collection of outstanding trade debtors. Trade and bills receivables average turnover days increased from 90 days as at 31 December 2019 to 100 days as at 31 December 2020, mainly due to additional credit period required by certain customers of the Group during the current economic circumstances. The management of the Group are of the view that the Group's receivables are of high quality and the Group has not encountered any material default payment from customers. As at 31 December 2020, current receivables and overdue balances of less than 30 days has improved to 94.8% (As at 31 December 2019: 88.5%) of the balance of the gross trade and bills receivables.




**Trade payables** decreased HK$4.1 million to HK$280.1 million as of 31 December 2020 (31 December 2019: HK$284.2 million). The decrease was mainly due to the reduction of overdue payable balances. Trade payable average turnover days as at 31 December 2020 decreased mildly to 48 days as compared to 49 days as at 31 December 2019.



## EBITDA and Net loss

The Group's EBITDA was HK$356.7 million, or EBITDA margin of 12.2% for the year ended 31 December 2020, as compared to HK$1,082.8 million, or EBITDA margin of 29.7% in last year. Loss attributable to shareholders of the Company was HK$148.2 million, as compared to a profit of HK$538.8 million from last year. Net profit margin for the year was -4.9%, as compared to 14.8% in last year.

Excluding the impact of impairment loss of goodwill and other assets and other adjustment items, the Group's adjusted EBITDA margin was 27.4%, which was 2.9% lower than 30.3% attained in last year, and the adjusted profit attributable to shareholders of the Company was HK$313.4 million for the year ended 31 December 2020, a drop of 45.6% as compared to HK$575.7 million from last year. Adjusted net profit margin was 10.8% for the year ended 31 December 2020, as compared to 15.8% attained in last year.

## Financial resources and liquidity

As at 31 December 2020, the total assets of the Group decreased by 4.9% to HK$5,672.3 million and shareholders' equity increased by 0.1% to HK$4,032.9 million as compared to the amount as at 31 December 2019. The decrease of total assets was mainly attributable to the impairment loss of goodwill and other assets, which was a non-cash item and thus would not have major impact on the Group's cash flows, operations, liquidity and debt covenant compliance. The Group's current ratio as at 31 December 2020 was 2.12, as compared to 1.77 as at 31 December 2019. The change in current ratio was primarily due to the improvement of working capital management by the Group.

The Group continues to adopt a prudent financial management and treasury policy to the effect that the Group can maintain a healthy financial position through different business cycles and achieve a long-term sustainable growth. The Group's business requires a significant amount of working capital for the purchase of raw materials, capital spending and product development cost. Prior to the global offering ("**Global Offering**"), the Group's working capital requirements are satisfied by way of internal financial resources and bank borrowings. The Group had free cash inflow of HK$364.0 million for the year ended 31 December 2020. The funds generated from operations and cash on hand are adequate to fund the liquidity and capital requirements.

The Group will continue to adopt prudent financial management and treasury policy following the Global Offering. To the extent that there is any surplus cash which has yet to be used for the designated purposes, the Group would deposit such cash with different licensed banks or financial institutions and/or subscribe for short-term debt instruments for the purpose of generating interest income.

# Management Discussion and Analysis

The table below sets forth a consolidated cashflow statement for the Group for the years indicated:

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$ million | 2019<br>HK$ million |
| **Cash generated from:** | | |
| Operating activities | 888.7 | 974.1 |
| Investing activities | (503.0) | (573.5) |
| Financing activities | (373.3) | (62.8) |
| **Net movement in cash** | **12.4** | **337.8** |

Cash flows generated from operating activities was HK$888.7 million, a decrease of HK$85.4 million compared to HK$974.1 million in last year. The decrease in cash flows from operating activities was mainly due to decrease in profit and timing of tax payment.

Cash flows used in investing activities was HK$503.0 million, a decrease of HK$70.5 million compared to HK$573.5 million in last year. The major items on investment activities were payment for capital expenditure which included purchases of machinery, equipment, tooling and infrastructure. Included in the capital expenditure was an amount of HK$234.2 million (2019: HK$ 203.7 million) which was funded from the proceeds of the Global Offering.

The table below sets forth the cash used in investing activities for the years indicated:

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$ million | 2019<br>HK$ million |
| Payment of property, plant and equipment | (485.0) | (458.7) |
| Payment for deferred expenses | (62.5) | (70.7) |
| Payment of deferred consideration payable | (34.9) | (4.6) |
| Decrease/(increase) in restricted deposits | 56.6 | (56.6) |
| Others | 22.8 | 17.1 |
| **Net cash used in investing activities** | **(503.0)** | **(573.5)** |

Cash flows used in financing activities was HK$373.3 million, compared to HK$62.8 million in last year. The increase in cash flows used in financing activities during the year was mainly due to the repayment of bank loans which resulted in a lower net debt balances.

The table below sets forth the cash used in financing activities for the years indicated:

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$ million | 2019<br>HK$ million |
| Proceeds from the Global Offering | – | 1,149.9 |
| Issuance expenses paid | – | (75.1) |
| Proceeds from bank loans | 736.3 | 1,637.7 |
| Repayment of bank loans | (901.0) | (2,453.3) |
| Interest paid | (34.2) | (73.6) |
| Dividend paid | (105.5) | (177.7) |
| Lease rentals paid | (68.9) | (70.7) |
| **Net cash used in financing activities** | **(373.3)** | **(62.8)** |

## Indebtedness

As at 31 December 2020, the Group's total borrowings was HK$853.8 million, a decrease of HK$228.4 million from HK$1,082.2 million as at 31 December 2019.

The table below sets forth the balances of short and long-term borrowing obligations within the Group as at the date indicated:

| | As at<br>31 December<br>2020<br>HK$ million | As at<br>31 December<br>2019<br>HK$ million |
|---|---|---|
| Current bank loans | 460.9 | 614.4 |
| Non-current bank loans | 355.3 | 363.0 |
| Current lease liabilities | 24.6 | 70.0 |
| Non-current lease liabilities | 13.0 | 34.8 |
| **Total borrowings** | **853.8** | **1,082.2** |

As at 31 December 2020, the Group had total banking facilities available for draw-down of HK$994.9 million.

The Group's net gearing ratio as at 31 December 2020 was 6.2% (as at 31 December 2019: 12.6%). This ratio is based on total borrowings less cash and cash equivalents and pledged deposits divided by total equity. The gearing level of the Group has decreased mainly due to strong free cash flow during the year.

# Management Discussion and Analysis

## Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. Capital expenditures of the Group amounted HK$470.5 million for the year ended 31 December 2020 which was primarily used in the production capacity expansion in our PRC plants, as well as the infrastructure and machinery spending for the new plants in Mexico. Among which, the Group incurred HK$246.9 million for the development of new plants in Mexico, including the purchases of machinery for and construction of precision machining, sand casting, investment casting, aerospace and surface treatment plants. Capital commitments contracted for but not incurred by the Group as at 31 December 2020 amounted to HK$583.1 million, which were mainly related to plants construction and acquisition of machinery.

## Pledge of Assets

Certain property, plant and equipment of the Group amounted to HK$15.7 million (as at 31 December 2019: HK$15.6 million) and bank deposits of nil (as at 31 December 2019: HK$4.8 million) were pledged as security for bank borrowings/facilities as at 31 December 2020.

## Contingent Liabilities

As at 31 December 2020, the Group had the following contingent liabilities:

(a) On 24 September 2011, a fire accident was incurred on the plant of Nantong Shenhai Industrial Technology Co., Ltd. ("**Shenhai Industrial**"). Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the "**Insurer**"). On 12 May 2015, the Supreme People's Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People's Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People's Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.

(b) Shenhai Industrial received arbitration notice that on 8 October 2018 the former shareholders of Shenhai Industrial was sued by a law firm in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial's fire accident insurance. During the year ended 31 December 2020, the law firm has returned the dissenting payments of RMB8,000,000 to the Group. The law firm requested the former controlling shareholder of Shenhai Industrial to settle the overdue legal fee amounting to RMB21,000,000 and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. As of the date of this report, the arbitration is on hearing. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

## Future Plans for Material Investments or Capital Assets

Save as disclosed in the section "Capital Expenditures and Commitments", the Group did not have other future plans for material investments or capital assets.

## Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries during the year ended 31 December 2020.

## Significant Investments

As at 31 December 2020, the Group did not have any significant investment plans.

## Treasury Policies and Exposure to Fluctuation in Exchange Rates

The Group has adopted a prudent approach on treasury management for the purpose of allocating sufficient financial resources to different subsidiaries within the Group with minimised amount of financial cost.

The Group's revenue was mainly denominated in US Dollar, Euro and Renminbi while most of the cost of sales was denominated in Renminbi, Turkish Lira and Euro. As a result, exchange rate fluctuations between the above-mentioned foreign currencies and HKD could affect the Group's performance and asset value in the reporting currency of HKD.

To reduce the exposure to foreign currency exchange risk, the Group's management monitors the foreign exchange rates from time to time and may adjust the currency mix of the loan portfolio in a proportion that resembled the respective underlying sales currency proportion with a view to reducing the impact of exchange rate fluctuations. As at 31 December 2020, the borrowings of the Group were denominated in HKD, USD, RMB and Euro, while the cash and cash equivalents were mainly denominated in USD, Euro and RMB in which, HK$128.8 million of borrowings were at fixed interest rates.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the year ended 31 December 2020, the Group did not use any financial instrument for hedging purpose.

## Employees and Remuneration Policy

As at 31 December 2020, the Group had about 6,179 full-time employees of whom 5,096 were based in Mainland China and 1,083 were based in Turkey, Germany, Mexico, Hong Kong, United states and other countries. The total staff costs, including the emoluments of the Directors, amounted to HK$790.4 million for the year ended 31 December 2020 (2019: HK$965.0 million).

The management of the Group maintains good working relationship with its employees and provides training when necessary to keep its employees informed of the latest information on developments of its products and production processes. Remuneration packages offered to the Group's employees are generally competitive and consistent with the prevailing levels in the market and are reviewed on a regular basis. Apart from basic remuneration and the statutory retirement benefit scheme, discretionary bonuses and share option may be provided to selected employees taking into consideration the Group's performance and the performance of the individual employee.

The Company adopted a Pre-IPO share option scheme for its employees.

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company completed the Global Offering on 28 June 2019 with the Over-allotment Option (as defined in the Prospectus) exercised in full on 19 July 2019. The amount of the net proceeds received from the Global Offering (including the full exercise of the Over-allotment Option) after deducting underwriting fees and commissions and other expenses in connection with the Global Offering was HK$1,031.5 million (the "**Actual Amount of the Net Proceeds**"), which is more than the estimated amount set forth in the Prospectus. Thus, the Company applied the Actual Amount of the Net Proceeds on the use of proceeds plan as stated in the Prospectus for the period from 1 July 2019 to 31 December 2020 on a pro rata basis except for repayment of interest-bearing bank borrowings.

The table below sets forth the actual use of the Net Proceeds from the Global Offering up to the year ended 31 December 2020:

| Business strategies as set out in the Prospectus | Intended timeframe for the use of the Net Proceeds | Planned Proceeds as stated in Prospectus | | Actual amount of the Net Proceeds | | Utilized amount of the Actual Amount of Net Proceeds as at 31 December 2020 | Unutilized amount of the Actual Amount of Net Proceeds as at 31 December 2020 |
|---|---|---|---|---|---|---|---|
| | | HK$ million | Proportion | HK$ million | Proportion | HK$ million | HK$ million |
| Capital expenditures for production capacity expansion | By 2020 | 361.3 | 40.0% | 437.9 | 42.5% | 437.9 | – |
| Repayment of interest-bearing bank borrowings | By 2020 | 271.1 | 30.0% | 271.1 | 26.3% | 271.1 | – |
| Acquisition of business (note 1) | By 2023 | 180.7 | 20.0% | 219.0 | 21.2% | – | 219.0 |
| Working capital and general corporate purpose | By 2020 | 90.4 | 10.0% | 103.5 | 10.0% | 103.5 | – |
| | | 903.5 | 100.0% | 1,031.5 | 100.0% | 812.5 | 219.0 |

Note 1: The unutilized proceeds are intended to be used for the same purposes as disclosed in the use of proceeds plan in the Prospectus. As at the date of this report, the Company had not identified any acquisition targets. While the Company continued to explore potential synergetic acquisitions during the past years, the pandemic and heightened geopolitical tension risk affected its progress. The Board of Directors currently expects the unutilized net proceeds as at 31 December 2020 will be fully utilized by 31 December 2023.

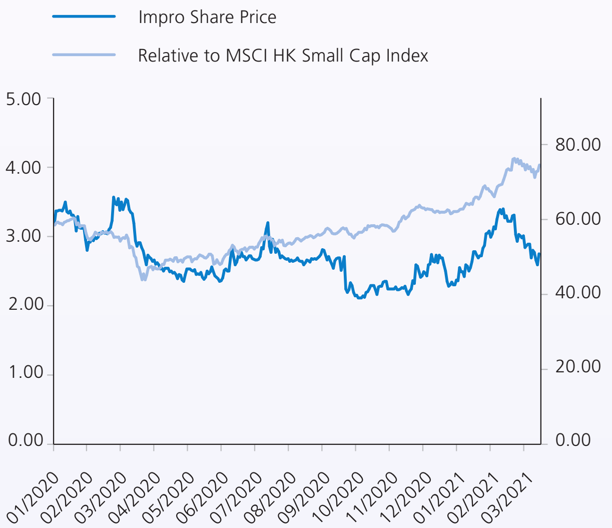
# Investor Relations

Impro's success hinges on the long term support of our Shareholders. We maintain an effective engagement with investors through meetings, participation in investment conferences, plant visits as well as roadshows. This is to ensure they have a thorough understanding of our business, and to provide them with updates on our operations.

## SHAREHOLDER VALUE

We are committed to creating sustainable value for our Shareholders, as demonstrated by consistent dividend payout ratio over the past 5 years.

## IMPRO SHARE PRICE SINCE 2020




*Source: S&P Capital IQ*

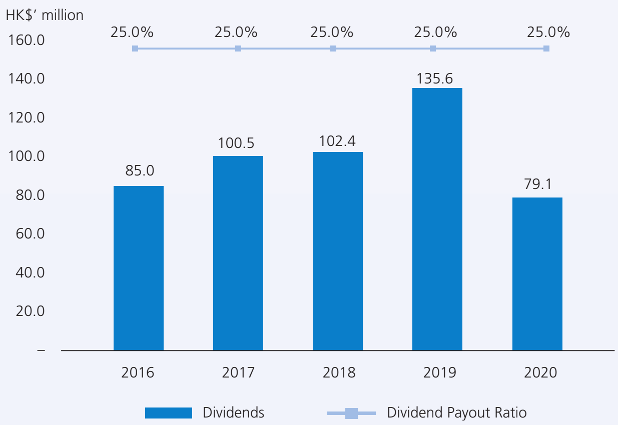
## Share Price Performance

| For the year ended 31 December | 2020 |
|---|---|
| Highest closing price | HK$3.58 (24 February 2020) |
| Lowest closing price | HK$2.12 (30 September 2020) |

## Dividend Payments

The Group's dividend payout ratio is linked to its operating earnings performance, financial position and future investment opportunities. Despite the one-off impairment loss of goodwill and other assets, the Board proposed to maintain the dividend payout ratio based on the adjusted profit attributable to shareholders of the Company for the financial year 2020. Details of the Group's dividend policy are set out in the Report of the Directors on page 57.

## DIVIDENDS AND DIVIDEND PAYOUT RATIO IN LAST 5 YEARS



# Investor Relations

## CORPORATE GOVERNANCE

We believe that high standards of corporate governance are required to execute corporate strategy well and generate increasing value for shareholders over the long term. Details of our progress in this respect can be found in the corporate governance report on pages 35 to 49.

## INVESTOR COMMUNICATIONS

We make every effort to maintain an open dialogue with shareholders and potential investors, listening carefully to all views expressed and keeping stakeholders fully informed of material developments. The channels we use to communicate with stakeholders include:

- Analyst briefings on the Group's interim and annual results, including presentation materials posted on the corporate website
- Investor conferences and post-results roadshows
- Meetings and conference calls
- Visits to the Group's manufacturing facilities in mainland China and Turkey
- An easily accessible Investors section on the corporate website, containing all key information
- A designated email for investors that makes communication easier

In addition to meeting with institutional investors, the Group also values its communication with retail investors. Therefore media briefings are held regularly to update the media the Group's latest development and to increase the Group's transparency at the retail investor level. The Group has also set up Impro Precision Facebook/Linkedin/Twitter/Wechat/Youtube subscription page for posting the Group's latest information regularly. The Group expects to enhance constructive and engaging conversations with various stakeholders from Hong Kong, Mainland China and the overseas through these social media platforms.

## LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited: 1286

## SHARE INFORMATION

Board lot: 1,000 shares

Issued shares as at 31 December 2020: 1,883,295,000

## DIVIDEND

Dividend per share for the year ended 31 December 2020
– Interim dividend: HK2.4 cents per share
– Final dividend: HK1.8 cents per share

## SHARE REGISTRARS

### Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

### Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## FINANCIAL CALENDAR

| 2021 | |
|---|---|
| 29 April – 4 May 2021 (both days inclusive) | Closure of Register of Members – Annual General Meeting |
| 4 May 2021 | 2021 Annual General Meeting |
| 6 May 2021 | Ex-dividend date |
| 10 – 12 May 2021 (both days inclusive) | Closure of Register of Members – Payment of 2020 Final Dividend |
| 24 May 2021 | Payment of 2020 Final Dividend |
| August 2021 | 2021 Interim Results Announcement |

## INVESTOR RELATIONS CONTACT AND WEBSITE

### Investor Relations Department

Unit 803, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Tel: (852) 2572 8628
Fax: (852) 2572 8638
Email: ir@impro.com.hk
www.improprecision.com/investors

# Corporate Sustainability

As the world's leading investment casting component manufacturer, the Group has established strategic and long-term cooperative relationship with global recognized industrial leaders, and has passed their strict certification requirements. Driven by the requirements of various systems, we continue to optimize the quality of products and services with innovative technologies, initiate the creation of green and safe production environment with our sense of responsibility of a social citizen, attract excellent talents with incentive and supportive ideas, and contribute to the community.

The footprints of the Group have reached various regions around the world and we endeavor to create value for the local communities in the places where we operate, to invest in the well being of our people and to operate in accordance with high ethical and environmental standards.

The Group will soon report its sustainability performance in details in a separate 2020 Environmental, Social and Governance ("ESG") Report. The report will be available in English and traditional Chinese. It will be prepared with reference to the ESG Reporting Guide for listed companies issued by The Stock Exchange of Hong Kong Limited, Global Reporting Initiative's (GRI) standards core option and United Nation's sustainable development goals. Past ESG report is available at Company's and also in HKEx's website.

# Corporate Governance Report

## CORPORATE GOVERNANCE FRAMEWORK

The Company has adopted the principles and code provisions according to the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") of Appendix 14 of the Listing Rules as the basis of the Company's corporate governance practices with effect from the Listing Date.

The Company is committed to maintaining high standards and has applied the Principles that are set out in the CG Code as set out in Appendix 14 of the Listing Rules. The Company's corporate governance practices are based on these Principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Company to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance transparency and accountability.

In the opinion of the Directors, the Company has complied with all the code provisions of the CG Code and to a large extent the recommended best practices in the CG Code during the year ended 31 December 2020, except for the deviation from code provision A.2.1 of the CG Code as described below.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. LU Ruibo ("Mr. LU") is our Group's Chairman and CEO. Since the founding of our Group in 1998, Mr. LU has been responsible for formulating our overall business development strategies and leading our overall operations, and therefore has been instrumental to our growth and business expansion. Mr. LU's vision and leadership have played a pivotal role in our Group's success and achievements to date, and therefore our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. Our long-serving and outstanding senior management team and our Board, which comprise experienced and high-caliber individuals, provide a check on balance of power and authority. Our Board comprises five executive Directors (including Mr. LU) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

## BOARD OF DIRECTORS

### Roles and Responsibilities

The Group endeavours to enhance corporate efficiency and profitability through the Board. The directors recognise their collective and individual responsibility to the shareholders and perform their duties diligently to contribute to positive results for the Group and maximise returns for shareholders.

The Board's focus is on the formulation of business strategy and policy, and control. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include, but not limited to the following:

- determining business plans and strategies, risk management, internal control;
- preliminary announcements of interim and annual results, and interim and annual reports;
- dividend policy;
- annual and quarterly financial forecast;
- major corporate activities such as material acquisitions and capital expenditures; and
- Directors' appointment, re-election and recommendations.

The Board may delegate part of its functions and duties to executive committees and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board.

## Board Composition

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance. It recognises diversity at Board level is an essential element in maintaining competitive advantage and sustainable development. The Board considers it vital to have the appropriate balance of skills, experience and diversity of perspectives that are needed to support the execution of its business strategies.

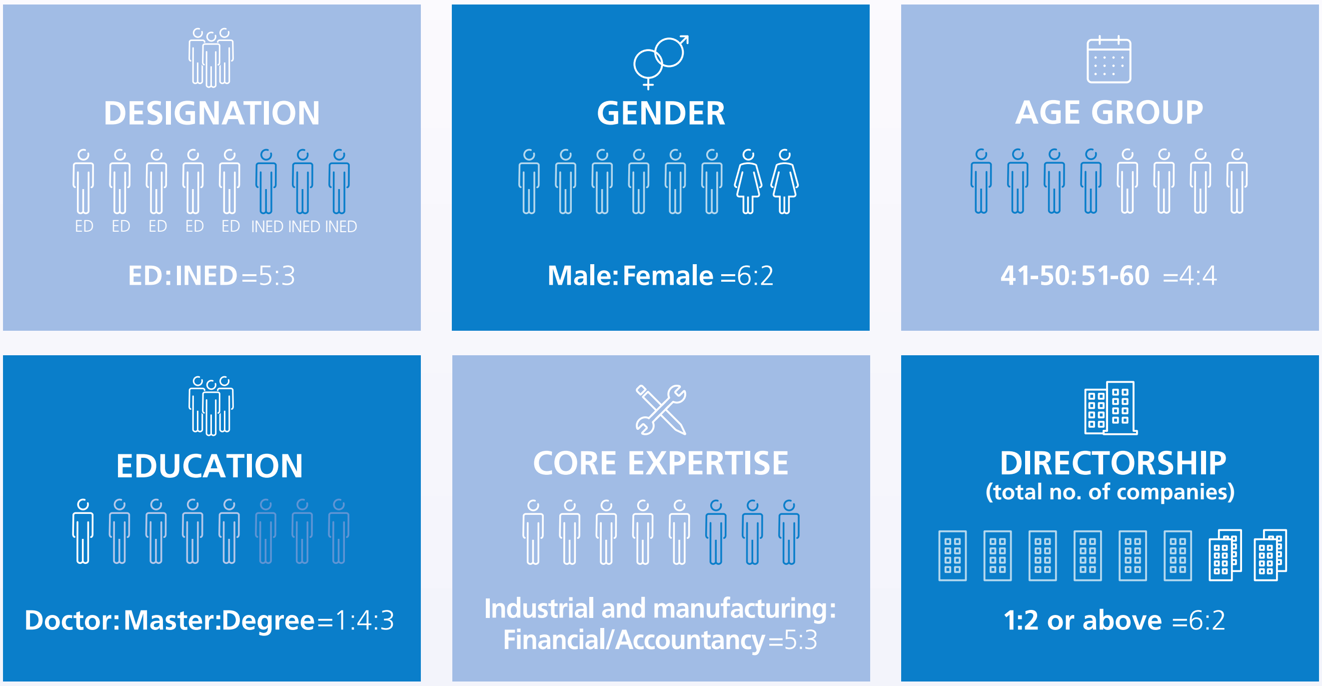
As at 31 December 2020, the Board comprised five executive Directors and three independent non-executive Directors, whose biographical details are set out in the section headed "Directors and Senior Management" on pages 50 to 56 of this annual report.

| | Name of Directors | Relevant Board Committees |
|---|---|---|
| Executive Directors (EDs) | Mr. LU Ruibo (Chairman and CEO) | NC RC |
| | Ms. WANG Hui, Ina | |
| | Ms. ZHU Liwei | SC |
| | Mr. YU Yuepeng | SC |
| | Mr. WANG Dong | SC |
| Independent Non-executive Directors (INEDs) | Mr. YU Kwok Kuen Harry | AC RC |
| | Dr. YEN Gordon | AC NC SC |
| | Mr. LEE Siu Ming | AC NC RC SC |

The Company has received from all independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

## Board Diversity

The Company has reviewed board diversity policy during the year ended 31 December 2020. In designing, reviewing and assessing the Board's composition, board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of service and time to be devoted to being a director. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for it to be effective. The analysis of the Board's composition as at 31 December 2020 is:




Note: Directorship (total number of companies) including the Company but excluding unlisted company(ies) in all countries.

## Appointment and Re-election of Directors

There is a written nomination policy and process (a formal, considered and transparent process) for the selection and appointment of new director(s) and there is a plan in place for orderly succession for appointments. All Directors are subject to retirement by rotation at least once every three years.

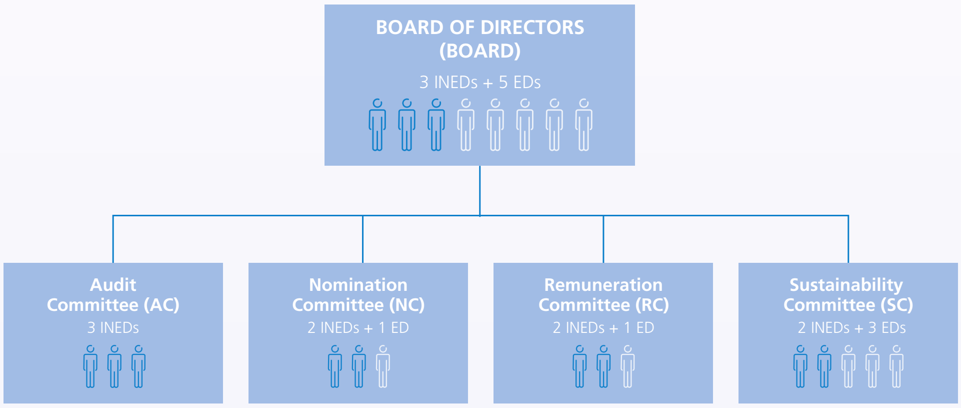
The independent non-executive Directors have letters of appointment from the Company for a term of three years that commenced on 1 April 2019. They are subject to retirement by rotation and are eligible for re-election at the AGM at least once every three years.

# Corporate Governance Report

## Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established four Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee. The Audit Committee only comprises independent non-executive Directors as members in order to ensure independence, while the Remuneration Committee and the Nomination Committee comprise a majority of independent non-executive Directors so that effective independent judgement can be exercised.

The following chart shows the corporate governance structure of the Board as at 31 December 2020:




The reports of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee for the year are set out below.

In order to comply with the Listing Rules and the CG Code, the terms of reference of each of the Audit Committee, Nomination Committee, Remuneration Committee and the Sustainability Committee of the Company and the list of directors and their roles and functions are regularly revised and updated, and are published on the websites of the Company and the Stock Exchange respectively.

## AUDIT COMMITTEE REPORT

The Audit Committee comprised three members, each of whom is an independent non-executive Director:

- Mr. YU Kwok Kuen Harry (Chairman)
- Dr. YEN Gordon
- Mr. LEE Siu Ming

The Board considers the Audit Committee to have appropriate, relevant financial, accounting and auditing experience and each member is independent as required by the Listing Rules. The Audit Committee met two times during the year ended 31 December 2020 and all members attended each meeting. The Chief Financial Officer attended the meeting of the Audit Committee by invitation. There is active contact among the members of the Audit Committee between meetings.

The main duties of the Audit Committee are as follows:

(i) to review the half-year and annual consolidated financial statements before they are submitted to the Board for approval;
(ii) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
(iii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
(iv) to review the Company's financial controls, internal controls and risk management systems;
(v) to review the Group's financial and accounting policies and practice; and
(vi) to review and monitor the effectiveness of the internal audit function.

Details of the Audit Committee's terms of reference can be found on the Company's website.

The Audit Committee reviewed the unaudited consolidated financial statements for the six months ended 30 June 2020 and the audited consolidated financial statements and reports for the year ended 31 December 2020 together with the external auditors satisfying itself as to the extent of work done by the external auditors, the consistent application of Group's accounting policies, the appropriateness of financial judgements applied. In view of their material significance to the Group, the Audit Committee has given ongoing attention to the loss allowance for trade receivables, valuation of inventory and impairment loss of goodwill. The Audit Committee was satisfied with the outcome of its various reviews and recommended the consolidated financial statements to the Board for approval. Audit Committee also had conducted a review of the effectiveness of the system of internal control and internal audit function of the Group. The Board has not taken a different view from that of the Audit Committee regarding the selection, resignation or dismissal of the external auditors.

The Audit Committee reviewed the work plan by the Internal Audit Department to ensure that, over a number of years, all areas of the Group are audited as regards financial and material internal controls. As the work is carried out, detailed reports are submitted to the Audit Committee for review and comment before being released more generally. The Audit Committee satisfies itself as to the quality and focus of the work done by the Internal Auditors, they have been given appropriate access and co-operation in conducting their work and that senior management is overseeing the implementation of any remedial actions required. Occasionally, the Chief Executive Officer or the Board may require the Internal Audit Department to focus on a short-term, urgent matter and the agreement of the Audit Committee is sought. The Audit Committee may from time to time recommend to the Chief Executive Officer proposals regarding the structure and staffing of the Internal Audit Department.

## REMUNERATION COMMITTEE REPORT

The Remuneration Committee comprises three members:

- Mr. LEE Siu Ming (Chairman) — independent non-executive Director
- Mr. YU Kwok Kuen Harry — independent non-executive Director
- Mr. LU Ruibo — executive Director, CEO and chairman of the Board

The Remuneration Committee met two times during the year ended 31 December 2020 and all members attended each meeting.

The main duties of the Remuneration Committee are as follows:

(i) to establish and review the policy and structure of the remuneration for the directors and senior management; and
(ii) to make recommendations to the Board on the remuneration packages of individual directors and senior management.

Details of the Remuneration Committee's terms of reference can be found on the Company's website.

During the year ended 31 December 2020, the Remuneration Committee discussed and agreed on

(a) current remuneration structure of the executive Directors and senior management; and
(b) 2020 and 2021 fees and annual salaries of individual independent non-executive Directors and executive Directors, and senior management as a whole.

## NOMINATION COMMITTEE REPORT

The Nomination Committee comprises three members:

- Mr. LU Ruibo (Chairman) — executive Director, CEO and chairman of the Board
- Dr. YEN Gordon — independent non-executive Director
- Mr. LEE Siu Ming — independent non-executive Director

The Nomination Committee met one time during the year ended 31 December 2020 and all members attended the meeting.

The main duties of the Nomination Committee are as follows:

(i) to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) to assess the independence of the INEDs of the Company; and

(iv) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairman and the chief executive.

Details of the Nomination Committee's terms of reference can be found on the Company's website.

During the year ended 31 December 2020, the Nomination Committee held one meeting to (i) review the structure, size and composition of the Board and (ii) assess the independence of INEDs. In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional knowledge and experience, industry knowledge and experience and technical skills. The Nomination Committee would consider and, where applicable, agree on measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Nomination Committee has not set any measurable objectives for implementing the policy. The Nomination Committee considered the current composition of the Board to be appropriate taking into account of the above.

## SUSTAINABILITY COMMITTEE REPORT

During the year ended 31 December 2020, the Board approved to establish the Sustainability Committee to further promote the sustainability development within the Group and also to external stakeholders. Currently, the Sustainability Committee comprises five members:

- Dr. YEN Gordon (Chairman) — independent non-executive Director
- Mr. LEE Siu Ming — independent non-executive Director
- Mr. YU Yuepeng — executive Director
- Ms. ZHU Liwei — executive Director
- Mr. WANG Dong — executive Director

The Sustainability Committee met two times during the year ended 31 December 2020 and all members attended each meeting.

The main duties of the Sustainability Committee are as follows:

(i) to review, formulate and endorse sustainability standards, priorities and goals of the Group;

(ii) to review and advise the Board on Environmental, Social and Governance ("**ESG**") reporting of the Company as regards its performance on sustainability matters, including, without limitation:
  - determining the appropriate international or national standard (if any) on sustainability that the Company will monitor and report to on an annual basis;
  - preparing an annual report on its activities for inclusion in the annual report of the Company or as a separate report for publication on the websites of the Stock Exchange and the Company; and
  - reviewing and recommending to the Board for approval the annual ESG Report, and making recommendations on specific actions or decisions the Board should consider in order to maintain integrity of the ESG Report;

(iii) Sustainability performance
  - to oversee, review and evaluate the Company's performance against the appropriate international or national standard (if any) on sustainability; and
  - to recommend strategies for improvements in the sustainability performance of the Company;

(iv) to advise the Board on the adoption of sustainability targets and measures; sustainability risks and opportunities.

Details of the Sustainability Committee's terms of reference can be found on the Company's website.

During the year ended 31 December 2020, the Sustainability Committee held two meetings to (i) review, formulate and endorse sustainability standards, priorities and goals of the Group; (ii) review the webpage content on sustainability on the corporate website and (iii) review and advise the Board on ESG report as regards its performance on sustainability key performance indicators (ESG KPIs) during the year ended 31 December 2020. The Sustainability Committee has not set any measurable targets on sustainability development but will continue to review the actual performance of ESG KPIs in 2021 before establishing formal targets and measures.

## DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments paid or payable to the Directors and chief executive for the year ended 31 December 2020 are as follows:

| | Directors' Fees HK$'000 | Salaries, allowances and benefits HK$'000 | Performance-based bonuses HK$'000 (note ii) | Retirement benefit schemes contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 December 2020 | | | | | | |
| Executive Directors (note i): | | | | | | |
| Mr. LU Ruibo *(Chairman)* | 300 | 2,983 | – | 240 | – | 3,523 |
| Ms. WANG Hui, Ina | 300 | 2,189 | – | 107 | 406 | 3,002 |
| Ms. ZHU Liwei | 300 | 1,413 | – | 41 | 406 | 2,160 |
| Mr. YU Yuepeng | 300 | 1,368 | – | 74 | 406 | 2,148 |
| Mr. WANG Dong | 300 | 1,383 | – | 43 | 406 | 2,132 |
| Independent Non-executive Directors: | | | | | | |
| Mr. YU Kwok Kuen Harry | 300 | – | – | – | – | 300 |
| Dr. YEN Gordon | 300 | – | – | – | – | 300 |
| Mr. LEE Siu Ming | 300 | – | – | – | – | 300 |
| | 2,400 | 9,336 | – | 505 | 1,624 | 13,865 |

Notes:

(i) The executive Directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The amounts represent performance-based bonuses paid to the Directors to reward their contributions to the Group, based on the performance of the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year ended 31 December 2020.

## FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

The five individuals with the highest emoluments in the Group include two Directors of the Company. The emoluments of the five highest paid individuals are as follows:

| | 2020<br>HK$' 000 |
|---|---|
| Directors' fees | 600 |
| Salaries and allowances | 11,930 |
| Share-based payments | 1,157 |
| Retirement benefits schemes contributions | 639 |
| Total | 14,326 |

Their emoluments were within the following bands (presented in HK$):

| | Number of directors | Number of employees |
|---|---|---|
| HK$2,000,001 to HK$3,000,000 | – | 3 |
| HK$3,000,001 to HK$4,000,000 | 2 | – |
| | 2 | 3 |

For the year ended 31 December 2020, no emoluments were paid by the Group to any of the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors of the Company has waived any emoluments for the year ended 31 December 2020.

## SENIOR MANAGEMENT'S REMUNERATION BY BANDS

The remuneration of the Company's senior management, whose profiles are set out on pages 53 to 56 of this annual report, for the year ended 31 December 2020 were within the following bands:

| | Number of senior management |
|---|---|
| HK$0 to HK$1,000,000 | 2 |
| HK$1,000,001 to HK$2,000,000 | 4 |
| HK$2,000,001 to HK$3,000,000 | 3 |

## DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. All Directors are encouraged to participate in continuous professional trainings at the Company's expenses. All Directors participated in appropriate continuous professional development activities including the Company's in-house update training for Directors for the year ended 31 December 2020, and relevant training records have been maintained by the Company for accurate and comprehensive record keeping. The Company Secretary has confirmed that he has complied with the training requirements that he took no less than 15 hours professional training under Rule 3.29 of the Listing Rules.

# Corporate Governance Report

## DIRECTORS' ATTENDANCE AND DEVELOPMENT

Details of Directors' attendance at the Board, board committees' meetings, annual general meeting and development program held for the year ended 31 December 2020 are set out in the table below:

| Name of Directors | Board[1] | Audit Committee | Nomination Committee | Remuneration Committee | Sustainability Committee | Development Program[2] |
|---|---|---|---|---|---|---|
| | Number of Meetings Attended/Held | | | | | |
| **Executive Directors (EDs)** | | | | | | |
| Mr. LU Ruibo | 5/5* | | 1/1* | 2/2 | | 1/1 |
| Ms. WANG Hui, Ina | 5/5 | | | | | 1/1 |
| Ms. ZHU Liwei | 5/5 | | | | 2/2 | 1/1 |
| Mr. YU Yuepeng | 5/5 | | | | 2/2 | 1/1 |
| Mr. WANG Dong | 5/5 | | | | 2/2 | 1/1 |
| **Independent Non-executive Directors (INEDs)** | | | | | | |
| Mr. YU Kwok Kuen Harry | 5/5 | 2/2* | | 2/2 | | 1/1 |
| Dr. YEN Gordon | 5/5 | 2/2 | 1/1 | | 2/2* | 1/1 |
| Mr. LEE Siu Ming | 5/5 | 2/2 | 1/1 | 2/2* | 2/2 | 1/1 |
| Approximate average duration per meeting (hour) | 2 | 2 | 0.5 | 0.5 | 1 | 1.5 |

*: representing chairman of the Board or relevant board committees.

Notes:

(1) The above figures exclude resolutions in writing signed by all Directors, and meetings between the Chairman and INEDs without the presence of EDs.

(2) In-house update training or continuing professional development program for the Company's Directors.

## EXTERNAL AUDITOR

The Group's independent external auditor is KPMG. The external auditor is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It receives a report from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

For the year ended 31 December 2020, the total fee paid/payable in respect of services provided by KPMG were HK$5.1 million (2019: HK$7.4 million), comprising fees for audit services HK$4.6 million (2019: HK$4.9 million) and for non-audit services (including listing and tax advice) HK$0.5 million (2019: HK$2.5 million).

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports, other price sensitive announcements and other financial disclosures required under the Listing Rules, and to report to the regulators as well as to disclose information required pursuant to statutory requirements. The statement of the external auditor about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. When the directors become aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, such uncertainties would be set out and discussed in detail in this Corporate Governance Report.

The statement of the independent auditor of the Company about its reporting responsibilities and opinion on the consolidated financial statements of the Group for the year ended 31 December 2020 is set out in the Independent Auditor's Report on page 74 of this annual report.

## INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT

The Board is responsible for ensuring that a sound and effective system of internal control and enterprise risk management is maintained within the Group, and for reviewing its design and operational adequacy and effectiveness through the Audit Committee.

The internal control and enterprise risk management system, which includes a defined management structure with specified limits of authority and control responsibilities, is designed to (a) help the achievement of business objectives and safeguard the Group's assets; (b) ensure proper maintenance of accounting records and reliability of financial reporting; (c) ensure compliance with relevant legislation and regulations; and (d) identify, manage and mitigate key risks to the Group.

The internal control and enterprise risk management system is established to ensure reasonable, but not absolute assurance against material misstatement or loss and to manage, but not to eliminate risks of failure in achieving the Group's objectives.

Following a risk-based approach, the Group's Internal Audit Department independently reviews and tests the controls over various operations and activities and evaluates their adequacy, effectiveness and compliance. Audit findings and recommendations are reported to the Audit Committee and senior management. In addition, progress on audit recommendations implementation is followed up on a regular basis and discussed with the Audit Committee.

During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's Internal Audit Department, accounting and financial reporting function and their training programs and budgets.

To supplement the above, under the Company's code of conduct, employees can report any ethical misconduct, impropriety or fraud cases within the Group to the Internal Audit Department in writing anonymously without the fear of recrimination.

Based on the results of evaluations and representations made by the management, the Group's Internal Audit Department and the external auditor, the Audit Committee is satisfied that:

- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and

- An appropriate, effective and adequate system of internal control and enterprise risk management has been in place throughout the year ended 31 December 2020, and up to the date of approval of the Annual Report.

## SHAREHOLDERS' RIGHTS

The Group aims to establish fair and transparent procedures to enable all shareholders an equal opportunity to exercise their rights in an informed manner and communicate efficiently with the Group. Under the Articles of Association and the relevant policies and procedures of the Group, the shareholders have, among others, the following rights:

### Convene an Extraordinary General Meeting

According to the article 58 of the Article of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members 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 of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures for putting forward Proposals at a General Meeting

The procedures for shareholders to put forward proposals at an AGM or EGM include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the Company's headquarters at Unit 803, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution, or whether the proposal relates to the election of a person other than a Director of the Company as a director. The procedures for shareholders to convene and put forward proposals at an AGM or EGM (including election of a person other than a Director of the Company as a director) are available on the Company's website or on request to the Company Secretary.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Pursuant to the code provision E.1.2 as set out in the CG Code, the Company has invited representatives of the external auditor of the Company to attend the AGM of the Company to be convened on 4 May 2021 to answer shareholders' questions relating to the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Board recognises the importance of communication with its shareholders and investors. The Company has established an Investor Relations Department to communicate with research analysts, institutional investors and shareholders in an on-going and timely manner, providing them necessary information, data and services to understand the Company's operations, strategies and development. The Company also issues press releases from time to time and responds to requests for information and queries from the investment community. Current information about the Company including the annual report, announcements, circulars and press releases can be downloaded from the Company's website (www.improprecision.com). Enquiries may be put to the Board by either contacting the Investor Relations Department through email at ir@impro.com.hk or raising questions at AGM.

## CONSTITUTIONAL DOCUMENT

The Company's Articles of Association were amended and restated as of 15 June 2018 with effect from the Listing Date. There has been no change on the Memorandum of Association during the year ended 31 December 2020 and a copy of the Articles of Association is available on the websites of the Company and the Stock Exchange.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set forth in Appendix 10 Listing Rules as the code of conduct for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the year ended 31 December 2020.

# Directors and Senior Management

## OUR EXECUTIVE DIRECTORS

**Mr. LU Ruibo (陸瑞博)**, previously known as LU Jianqiu (陸建秋), aged 57, is an executive Director, the Chairman of our Board and our Chief Executive Officer. Mr. LU has over 36 years' experience in mechanical engineering and industrial engineering. Mr. LU is the founder of our Group. With his extensive experience in manufacturing industry, Mr. LU is responsible for formulating our overall business development strategies and overseeing our Group's overall operations. Prior to founding our Group in September 1998, Mr. LU worked at Jiangyin Bearing Factory (江陰市軸承廠), which then specialized in the manufacturing of bearing products, from May 1992 to July 1998, and Jiangyin Micro-Bearing Factory (江陰市微型軸承廠), which then specialized in the manufacturing of micro-bearing products, from September 1988 to May 1992, where he was respectively responsible for overseeing the production process. During the period between August 1984 and September 1988, Mr. LU served as a technician at Wuxi Textile Machinery Special Parts Plant (無錫紡織機械專件廠) (previously known as Wuxi Textile Machinery Research Institute (無錫紡織機械研究所), an entity in China engaged in the production of machine parts for textile, and thereby accumulated practical experience in managing the production process in manufacturing businesses.

Accumulated working experience equipped Mr. LU with the necessary management skills and industry experience in managing manufacturing businesses in China and overseas.

Mr. LU obtained a bachelor's degree in engineering, majoring in mechanical design, manufacturing processes and equipment, from Northeastern Heavy Machinery Institute (東北重型機械學院) (currently known as Yanshan University 燕山大學), the PRC, in July 1984. Mr. LU is the spouse of Ms. Wang Hui, Ina. Mr. LU was appointed as an executive Director in March 2008. Over the past three years, Mr. LU has not acted as a director in other listed companies.

**Ms. WANG Hui, Ina (王輝)**, aged 50, is an executive Director and our Group Vice President. Ms. WANG is in-charge of our Group's marketing, contract management and legal affairs. Ms. WANG has been the president of Impro USA since September 2010 and leads the overall operations of Impro USA. Ms. WANG joined Impro USA in March 1999 and set up and managed our Group's sales offices in the United States and Europe. Ms. WANG has been responsible for our business development and sales contracts negotiation and management. Ms. WANG was our Group's Vice President from June 2008. Ms. WANG has over 20 years' experience in international trade, sales and marketing and overseas operational management activities. This previous working experience equipped Ms. WANG with the required practical skills and business connections for facilitating overseas marketing activities.

Ms. WANG obtained a bachelor's degree in Chinese literature and linguistics from East China Normal University (華東師範大學), the PRC, in July 1992. Ms. WANG obtained a master of business administration (MBA) degree from the University of Phoenix, the United States, in April 2017 and master of Science Regulatory Trade Compliance (MSc) degree from Dunlap-Stone University, the United States in December 2019. Ms. WANG is the spouse of Mr. LU. Over the past three years, Ms. WANG has not acted as a director in other listed companies.

**Mr. YU Yuepeng (余躍鵬)**, aged 50, is an executive Director and our Group Vice President leading the operations and sales support of Plant 5, Plant 6, Plant 7 and Plant 9. Mr. YU joined us in September 1998 and has worked as the director and chief manager of Impro Aerotek, the deputy chief manager of Impro China, the assistant manager and the assistant to chief manager of Impro-Bees Hydraulics. Mr. YU is currently president of Impro China, president of Impross Impeller and vice president of Impro Industries Mexico.

Mr. YU obtained a bachelor's degree in agricultural mechanics from Nanjing Agricultural University (南京農業大學), the PRC, in July 1994. Over the past three years, Mr. YU has not acted as a director in other listed companies.

**Ms. ZHU Liwei (朱力微)**, aged 52, is an executive Director and Group Vice President leading the operations of Plant 3, Plant 4 and Plant 8 in the China region. Ms. ZHU has more than 20 years' experience in the industrial engineering industry. Ms. ZHU joined Wuxi Viking, the predecessor of Impro China, in July 1995 and from September 1998 to September 2006, Ms. ZHU was its general manager responsible for its daily operations. Ms. ZHU was our Vice President from September 2006 to December 2017, responsible for the purchasing department of the China region and the operations of our Plant 2, Plant 3 and Plant 4. Ms. ZHU has been in charge of the aerospace and medical business of our Group since January 2014. Ms. ZHU is currently the president of Impro Aerotek.

Ms. ZHU obtained a bachelor's degree in engineering economics and a master's degree in industrial engineering from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1991 and March 2005, respectively. In November 2006, Ms. ZHU was awarded the title of "Senior Economist" (高級經濟師) by the Jiangsu Province Personnel Affairs Bureau (江蘇省人事廳), a provincial government authority responsible for employment and personnel matters, and awarded the title of "Chief Economist" (正高級經濟師) on 11 December 2019, recognizing her expertise and experience in management, economy employment and personnel matters. Over the past three years, Ms. ZHU has not acted as a director in other listed companies.

**Mr. WANG Dong (王東)**, aged 45, is our executive Director and is responsible for the operations and sales support of Plant 2. Mr. WANG has more than 20 years' experience in manufacturing of high-precision machining components and parts. Mr. WANG joined us in October 2001 and worked as the manager for production and logistics of Wuxi Impro-Bees Machinery Co., Ltd (now trading as Impro-Bees Hydraulics); the deputy general manager of Impro China; the deputy general manager of Impro Aerotek; the executive deputy general manager of Impro Yixing; the director of Impross Impeller and the executive director and general manager of Impro Taizhou. Before joining us, Mr. WANG served as a technician and an engineer at Wuxi Weifu Group Co., Ltd. (無錫威孚集團公司), a company engaged in the development, manufacturing and supply of components and parts for trucks, passenger cars, and construction machines, from July 1998 to July 2000, where he was responsible for product development.

Mr. WANG obtained a bachelor's degree in mechanical and electronic engineering from Xi'an University of Technology (西安理工大學), the PRC, in July 1998. Over the past three years, Mr. WANG has not acted as a director in other listed companies.

# Directors and Senior Management

## OUR INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. YU Kwok Kuen Harry (余國權)**, aged 51, was appointed as our independent non-executive Director on 1 April 2019. Mr. YU also serves as the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. YU is experienced in the finance and accounting field. Mr. YU worked at KPMG, an international accounting firm, from October 1991 to June 2011, during which he became a partner in July 2002. Mr. YU is an independent non-executive director of China Risun Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1907) since September 2018, an independent non-executive director of Suzhou Basecare Medical Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2170) since February 2021 and an independent non-executive director and an independent director of Shenzhen Feima International Supply Chain Company Limited (a company listed on the Shenzhen Stock Exchange, stock code: 2210.SE) since January 2021.

Mr. YU obtained a diploma in accountancy from the Morrison Hill Technical Institute, Hong Kong and a master's degree in Business Administration through long distance learning awarded by Manchester Business School. Mr. YU is a fellow of the Institute of Chartered Accountants in England and Wales, a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. YU is also a registered auditor in the Macau Special Administrative Region.

**Dr. YEN Gordon (嚴震銘)**, aged 51, was appointed as our independent non-executive Director on 1 April 2019. Dr. YEN also serves as the chairman of the Sustainability Committee and a member of the Audit Committee and the Nomination Committee. Dr. YEN is currently the founding managing partner of Radiant Tech Ventures Limited, an innovation and technology venture capital firm, and is registered as a responsible officer under the SFO for Type 9 (asset management) regulated activities. Dr. YEN has over 20 years of management and operational experience in private and listed companies in investment, global supply chain, manufacturing and infrastructure industries. Dr. YEN was an independent non-executive director of Hopewell Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 54) from May 2012 to May 2019. Dr. YEN has also been the non-executive vice chairman and a non-executive director of Fountain Set (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 420) since 28 August 2018 and May 2013, respectively.

Dr. YEN obtained a bachelor of science degree in manufacturing engineering from Boston University, the United States, in May 1990; a Master of Business Administration degree from McGill University, Canada, in June 1992, and a Doctor of Business Administration from The Hong Kong Polytechnic University in December 2005.

**Mr. LEE Siu Ming (李小明)**, aged 45, was appointed as our independent non-executive Director on 1 April 2019. Mr. LEE also serves as the chairman of the Remuneration Committee, a member of the Audit Committee, the Nomination Committee and the Sustainability Committee. Mr. LEE has been the chief strategy officer and head of capital markets/corporate finance of VPower Group International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1608) since April 2017. Mr. LEE has over 18 years of experience in investment banking and asset management, and worked at a number of investment banking institutions in Hong Kong such as BOCI Asia Limited, Morgan Stanley Asia Limited, Deutsche Bank AG, Hong Kong Branch, and BNP Paribas Peregrine Capital Limited from 1999 to 2016, where he participated in leading corporate finance and capital markets transactions. Mr. LEE's last position in investment banking was managing director of Global Coverage Centre at BOCI Asia Limited.

Mr. LEE obtained a Master of Business Administration degree and a Bachelor of Business Administration degree from University of Wisconsin – Madison, the United States, in December 1997 and May 1997, respectively. In addition, Mr. LEE has obtained the Chartered Financial Analyst certification from the CFA Institute since May 2001.

## OUR SENIOR MANAGEMENT

**Mr. YILMAZ Koray Mert**, aged 43, is our Group Vice President leading the business development and business operations of Cengiz Makina and Impro Industries Mexico. Mr. YILMAZ also assists in the management of Impro USA. Mr. YILMAZ is currently president of Impro Industries Mexico, president of Cengiz Makina and vice president of Impro USA. Mr. YILMAZ has more than 20 years' experience in the precision machining and automotive industry. Before joining us, Mr. YILMAZ worked at Robert Bosch GmbH in Germany and Turkey from July 1999 to December 2008, where his last position was section manager for technical purchasing. Mr. YILMAZ joined Cengiz Makina in October 2009 as a technical coordinator and was promoted as the general manager in January 2013 and managing director in August 2014.

Mr. YILMAZ obtained a bachelor's degree in mechanical engineering and a minor degree in metallurgical and materials engineering from Middle East Technical University in Turkey in June 1999.

**Mr. IP Wui Wing Dennis (葉匯榮)**, aged 44, was appointed as our Group Chief Financial Officer in December 2016 and Company Secretary in December 2017. Mr. IP is responsible for overseeing the finance, compliance, investor relations and company secretarial matters. Mr. IP also currently serves as a director of Impro Industries Mexico and Cengiz Makina. Prior to joining us, Mr. IP was the chief financial officer and executive director of Braiform Holdings Limited, which is a leading garment hangers and packing solutions provider, from November 2013 to December 2016. Before that, Mr. Ip worked in several multinational companies and an international audit firm (Arthur Andersen & Co.), where he developed extensive experience in leading finance accounting, mergers and acquisitions, treasury, internal control, investor relations and corporate governance functions.

Mr. IP graduated from The Chinese University of Hong Kong, Hong Kong, in December 1998 with a bachelor's degree in business administration. In November 2006, Mr. IP obtained a master's degree in business administration from The Hong Kong University of Science and Technology, Hong Kong. Mr. IP has been certified as a certified public accountant (CPA) by Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants (HKICPA)) since September 2001 and has been a fellow of HKICPA since March 2018. Mr. IP has obtained the Chartered Financial Analyst Certification from the CFA Institute since October 2003.

# Directors and Senior Management

**Mr. SUN Xiaohao (孫嘯昊)**, aged 44, was appointed as our Group Vice President (Business Strategy, Investment and Integration) on January 2018. Mr. SUN also currently serves as a director of Cengiz Makina and Impro Fluidtek. Mr. SUN has extensive experience in business strategy and investment. Mr. SUN was a senior founding member and director of Cobalt Equity Partners, a Pan Asia mid-market private equity fund, since March 2017. From May 2005 to February 2017, Mr. SUN worked at General Electric ("**GE**"), a multinational conglomerate corporation, at which, his last positions were director of GE private equity & business development and strategic partnership and marketing director of GE Capital China, and was responsible for equity investment transactions in industrial sections, and managing business strategy and capital markets initiatives for joint ventures. From 1998 to 2005, Mr. SUN worked at a number of industrial and consumer goods manufacturers, primarily engaged in marketing, strategy and product management activities.

Mr. SUN obtained a Master of Business Administration degree from China Europe International Business School (CEIBS) (中歐國際工商學院), the PRC, in April 2004, and a bachelor of engineering degree, major in metal and heat treatment, from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1998. In addition, he obtained the certification as a GE Black Belt in Six Sigma from GE, in December 2006.

**Mr. ZHUANG Xulei (莊緒雷)**, aged 46, is the managing director and chief engineer of Plant 3, and executive director and general manager of Plant 4. He is concurrently managing Plant 5. Mr. ZHUANG has over 20 years' experience in the industrial engineering industry. Mr. ZHUANG joined Wuxi Viking, the predecessor of Impro China, in September 1998. Since September 1998, he has held various positions in Impro China, including manager of investment casting products department, manager of automobile parts products department, deputy chief engineer and chief engineer of Impro China and Impro Aerotek.

Mr. ZHUANG obtained a bachelor's degree in mechanical design and manufacturing from Taiyuan Heavy Machinery Institute (太原重型機械學院) (currently known as Taiyuan University of Science and Technology 太原科技大學), the PRC, in July 1998. In November 2005, he received Six Sigma Black Belt Certification from Caterpillar Inc.. Mr. ZHUANG was certified as an engineer by Wuxi City Human Resources and Social Security Department (無錫市人力資源和社會保障局) in September 2011 and a senior engineer by the Jiangsu Human Resources and Social Security Department (無錫市人力資源和社會保障廳) in November 2017.

**Mr. SHEN Kun (沈昆)**, aged 50, is the executive director and general manager of Shenhai Industrial. Mr. SHEN has over 26 years' experience in the industrial engineering industry. Mr. SHEN was general manager of Impro Yixing from November 2014 to December 2017, general manager of Impro Taizhou from November 2015 to December 2017, and general manager of Impross Impeller from January 2017 to December 2017. Mr. SHEN was later appointed as the executive director and general manager of Shenhai Industrial since December 2017. Prior to joining us, Mr. SHEN worked at Wuxi Machine Tools Co., Ltd (無錫機床股份有限公司) Wuxi machine tool plant, a company manufacturing machine tools, from July 1992 to July 1997. From September 1997 to June 2000, he served as a manufacturing manager at Donaldson (Wuxi) Filter Co., Ltd. (唐納森(無錫)過濾器有限公司), which is a company providing filtration technology. Mr. SHEN later became the operating manager of Wuxi MI Technologies Co., Ltd., (模藝(無錫)塑料有限公司), which engages in box-building activities, precision injection plastic molding, tool design and fabrication, from June 2000 to December 2005. From February 2006 to February 2013, he joined Jiangsu Shuangyu Electric Material Co., Ltd (江蘇雙宇電工材料有限公司), a company engaging in magnet wire technology, as the general manager. Mr. SHEN then worked as the factory manager at Jones Tech PLC, Wuxi (北京中石偉業科技無錫有限公司), a company providing solution to improve the reliability of electronic equipment, from April 2013 to August 2014.

Mr. SHEN graduated from Chongqing University (重慶大學), the PRC, and obtained a bachelor's degree in industrial design in July 1992.

**Mr. WANG Haozhan (王好戰)**, aged 41, is the Group's Managing Director and the director of Impro Industries Mexico, managing Plant 1 production and operation, leading group sales and customer service in Asia and Europe industrial and automotive customers of the Group, and actively expanding investment castings business in Mexico Plant. Mr. WANG is also the co-managing director of Impro Europe and Impro Germany, jointly responsible for overall sales, business development and operations. Prior to joining us in November 2019, Mr. WANG worked at 3M, a multinational manufacturing corporation, at which his last position was the director of Sales Excellence & Strategic Key Account Management of 3M China Industrial Business Group between February 2006 to November 2019. From April 2003 to February 2006, Mr. WANG worked in Shanghai Volkswagen Ltd, a leading automotive manufacturer, as engineer and manager assistant of department for Prototype Car Development and Road Testing in R&D Center, and responsible for sales and marketing planning, and dealership management.

Mr. WANG obtained a Master degree in Automotive Mechatronics in April 2003, and a Bachelor degree in Engineering, major in thermal engine in July 2000, both from Shanghai JiaoTong University (上海交通大學), the PRC.

**Mr. CHEN Kailiang (諶開良)**, aged 40, is the co-managing director of each of Impro Europe and Impro Germany, responsible for overall sales, business development and operations. Mr. CHEN is also concurrently the managing director of BFG-Czech, BFG-Hessen, and BFG-Niederrhein, in charge of their overall business development and operations. Prior to joining us in November 2017, Mr. CHEN was vice president at Gerresheimer AG in Germany, a group principally engaged in the manufacture of specialty glass and plastic products for pharmaceutical and healthcare use, from January 2015 to October 2017, where he was in charge of operations in Europe. Before that, Mr. CHEN worked in several multinational companies in Europe, when he developed extensive experience in leading sourcing, supply chain and business development.

Mr. CHEN obtained a master degree in electrical engineering and information technology (majoring in mechatronics) from the Technical University of Munich, Germany, in June 2007.

# Directors and Senior Management

**Mr. DENG Mingquan (鄧明泉)**, aged 41, the director of Impro Industries Mexico, is in-charge of production, operations and sales of Mexico sand casting components plant. Mr. DENG has over 15 years' experience in the industrial engineering industry. Prior to joining Impro USA in August 2017, Mr. DENG worked as a purchasing manager in Caterpillar Inc., a manufacturer of construction and mining equipment, from August 2004 to June 2016.

Mr. DENG obtained a Master degree of Mechanical Engineering from Tsinghua University (清華大學), the PRC, in July 2003 and a Master of Business Administration degree from The University of Washington, the United States, in June 2017.

**Ms. ZHANG Mingmei (張明媚)**, aged 44, is our business development director. She has over 20 years' experience in the industrial engineering industry. Prior to joining Impro China in May 2001, Ms. ZHANG worked as a technician at Wuxi Drilling Tools Factory Co., Ltd (無錫鑽探工具廠有限公司), which is a company manufacturing drilling tools, from July 1997 to May 2001.

Ms. ZHANG graduated from Changchun University of Science and Technology (長春科技大學) (now merged into Jilin University (吉林大學)), the PRC, with a bachelor's degree in investigation engineering, in July 1997.

# Report of the Directors

The Directors present this report together with the audited consolidated financial statements for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are shown in Note 16 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 are provided in the Chairman's Statement and Management Discussion and Analysis sections respectively from pages 14 to 19 and pages 20 to 30 of this Annual Report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 81 of this Annual Report.

The Directors declared an interim dividend of 2.4 HK cents per share, totaling HK$45.2 million which was paid on 10 September 2020.

The Board has recommended the payment of a final dividend of 1.8 HK cents per share for the year ended 31 December 2020, amount to a total of approximately HK$33.9 million. Subject to the approval of the proposed final dividend by the shareholders at the annual general meeting to be held on Tuesday, 4 May 2021, the proposed final dividend is expected to be paid on Monday, 24 May 2021.

## DIVIDEND POLICY

As disclosed in the Prospectus of the Company dated 28 June 2019, the Board intends to adopt a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 25% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

## CLOSING REGISTER OF SHAREHOLDERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING AND TO FINAL DIVIDEND

The forthcoming AGM will be held on Tuesday, 4 May 2021. Notice of the AGM will be sent to its Shareholders in due course. For the purpose of determining Shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 29 April 2021 to Tuesday, 4 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30p.m. on Wednesday, 28 April 2021.

# Report of the Directors

For the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 10 May 2021 to Wednesday, 12 May 2021, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30p.m. on Friday, 7 May 2021.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years are set out on pages 191 to 192.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2020 are set out in Note 30 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 30 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2020, the distributable reserves of the Company available for distribution as dividends amounted to HK$1,661.6 million (2019: HK$1,636.5 million).

## DONATIONS

During the year, the Group made donations of HK$0.2 million (2019: HK$ 1.0 million).

## PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands in relation to issues of new Shares by the Company.

## RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the Shares.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the year ended 31 December 2020.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2020, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchase. The Group's largest customer accounted for approximately 13.8% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 43.7% of the Group's revenue during the financial year.

None of the Directors, their close associates or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are one of the significant assets of the Group. The Group aims to continue establishing a caring environment to employees and emphasizes the personal development of its employees. The Group maintains a good relationship with its customers and suppliers. The Group aims to continue providing quality services and consumption experiences to its customers and establishing cooperation strategy with its suppliers.

## RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group also participates in defined contribution retirement schemes organized by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. The Group also operates defined benefit retirement schemes for employees in Germany and Turkey. Particulars of the retirement benefit schemes are set out in Note 29 to the consolidated financial statements.

## DIRECTORS

During the year ended 31 December 2020 and up to the date of this report, the Directors of the Company were:

### Executive Directors

Mr. LU Ruibo *(Chairman and Chief Executive Officer)*
Ms. WANG Hui, Ina
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

### Independent Non-Executive Directors

Mr. YU Kwok Kuen Harry
Dr. YEN Gordon
Mr. LEE Siu Ming

# Report of the Directors

In accordance with Article 83 and 84 of the Articles of Association, Ms. WANG Hui, Ina, Mr. WANG Dong and Mr. LEE Siu Ming shall hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

## DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

The profiles of the Directors and the senior management are set out in the Directors and Senior Management section on pages 50 to 56.

## DIRECTORS' SERVICE AGREEMENTS

Each executive Director has entered into a service agreement with the Company on 15 June 2018 and letters of appointment have been issued to each independent non-executive Director on 1 April 2019. The service agreements with each executive Director and the letters of appointment to each independent non-executive Director are for an initial fixed term of three years. The service agreements and the letters of appointment are subject to termination in accordance with the respective terms. The service agreements and letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

The emoluments of Directors have been determined with reference to the skills, knowledge and involvement in the Company's affairs, the performance of each Director and the Company, and the prevailing market conditions during the year.

Save as disclosed above, none of the Directors has entered, or has proposed to enter, a service agreement with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2020.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

## MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in Note 33 to the consolidated financial statements.

## DEED OF NON-COMPETITION

Each of our Controlling Shareholders and executive Directors (collectively, the "**Covenantors**") has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as our Shares remain so listed on the Hong Kong Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates shall:

(a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and

(b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, has undertaken to our Group that:

(a) if any new business opportunity relating to any of the products and/or services of the Group (the "**Business Opportunity**") is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable the Company to evaluate the merits of the Business Opportunity.

(b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of our Group) shall not pursue the Business Opportunity even though we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company shall have been approved by our independent non-executive Directors.

During the year ended 31 December 2020, the Company had not received any information in writing from any of the Covenantors in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to the knowledge of the Covenantors or their associates (other than any member of the Group). Each of the Covenantors has made an annual declaration to the Company that he/she/it had fully complied with his/her/its obligations under the Deed of Non-competition during the year ended 31 December 2020.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transaction, arrangement or contract of significance, to which the Company, its parent company or controlling shareholders or any of their respective subsidiaries was a party and in which a director of the Company or an entity connected with him (within the meaning of section 486 of the Hong Kong Companies Ordinance) had a material interest (whether directly or indirectly), was entered into in the year or subsisted at the end of the year or at any time during the year.

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save for the share options with details set out under the section headed "Share Option Scheme" in this Annual Report, at no time during the year was the Company, or any of its holding company or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked arrangement.

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

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, the underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

## THE COMPANY AND ASSOCIATED CORPORATION

### (i) Long positions in the Shares and underlying Shares of the Company

| Name of Directors | Nature of interest/capacity | Number of Shares or underlying Shares | Percentage of the Company's issued share capital |
|---|---|---|---|
| Mr. LU | Interest in a controlled corporation [1] | 1,137,790,787 | 60.41 |
| | Spouse interest [2] | 1,500,000 | 0.08 |
| | Beneficial owner | 9,239,000 | 0.49 |
| Ms. WANG | Beneficial owner [2] | 1,500,000 | 0.08 |
| | Spouse interest [3] | 1,147,029,787 | 60.91 |
| Mr. YU Yuepeng | Beneficial owner [4] | 1,500,000 | 0.08 |
| Ms. ZHU Liwei | Beneficial owner [5] | 1,500,000 | 0.08 |
| Mr. WANG Dong | Beneficial owner [6] | 1,500,000 | 0.08 |

### (ii) Interest in associated corporation

| Name of Directors | Name of associated corporation | Number of shares | Percentage of shareholding interest |
|---|---|---|---|
| Mr. LU | Impro Development | 1 | 100 |
| Ms. WANG | Impro Development | (Note 3) | (Note 3) |

Notes:

(1) All issued shares of Impro Development Limited ("Impro Development") are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development. Accordingly, Mr. LU is deemed to be interested in the 1,137,790,787 Shares held by Impro Development under the SFO.

(2) Ms. WANG is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(3) Ms. WANG is the spouse of Mr. LU and is deemed to be interested in the Shares which Mr. LU is interested in pursuant to Divisions 7 and 8 of Part XV and section 352 of the SFO. She is neither a director of Impro Development nor holds any interest, beneficial or otherwise, in the issued shares of Impro Development.

(4) Mr. YU Yuepeng is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(5) Ms. ZHU Liwei is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(6) Mr. WANG Dong is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

Save as disclosed above, as at 31 December 2020, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have any interests or short positions in any of the Shares or the underlying Shares and debentures of the Company and associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2020, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled entity) in the Shares and the underlying Shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

| Name of substantial shareholders | Nature of interest/capacity | Number of Shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Impro Development | Beneficial owner | 1,137,790,787 | 60.41 |
| Mr. LU | Interest in controlled corporation and beneficial owner | 1,147,029,787 | 60.91 |
| | Spouse interest | 1,500,000 | 0.08 |
| Baring Private Equity Asia V Holding (2) Limited ("**Baring**") (1) | Beneficial owner | 237,153,654 | 12.59 |
| Casting Holdings Limited (1) (2) | Interest in controlled corporation | 237,153,654 | 12.59 |
| The Baring Asia Private Equity Fund V, L.P. (2) | Interest in controlled corporation | 237,153,654 | 12.59 |
| Baring Private Equity Asia GP V, L.P. (2) | Interest in controlled corporation | 237,153,654 | 12.59 |
| Baring Private Equity Asia GP V Limited (2) | Interest in controlled corporation | 237,153,654 | 12.59 |
| Jean Eric Salata Rothleder (2) | Interest in controlled corporation | 237,153,654 | 12.59 |
| GT Cedar Capital (Hong Kong) Limited ("**GT Cedar**") (3) | Beneficial owner | 102,703,123 | 5.45 |
| Genertec Investment Management Co. Ltd. (4) | Interest in a controlled corporation | 102,703,123 | 5.45 |
| China General Technology (Group) Holding Company Limited (4) | Interest in a controlled corporation | 102,703,123 | 5.45 |

Notes:

(1) Baring is wholly-owned by Casting Holdings Limited. Casting Holdings Limited is owned as to 99.35% by The Baring Asia Private Equity Fund V, L.P. and 0.65% by The Baring Asia Private Equity Fund V Co-Investment L.P.

(2) Each of Casting Holdings Limited, The Baring Asia Private Equity Fund V, L.P. (as the controlling shareholder of Casting Holdings Limited), Baring Private Equity Asia GP V, L.P. (as the general partner of The Baring Asia Private Equity Fund V, L.P.), Baring Private Equity Asia GP V Limited (as the general partner of Baring Private Equity Asia GP V, L.P.), and Mr. Jean Eric Salata Rothleder (as the sole shareholder of Baring Private Equity Asia GP V Limited) are deemed to be interested in the Shares held by Baring. Mr. Jean Eric Salata Rothleder disclaims beneficial ownership of the Shares held by Baring, except to the extent of his economic interest in such entities.

(3) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.

(4) Genertec Investment Management Co. Ltd. is owned as to 99.7% by China General Technology (Group) Holding Company Limited and 0.3% by China National Technical Import & Export Corporation, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd. and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares held by GT Cedar.

## PERSONS WHO HAVE AN INTEREST OR SHORT POSITIONS WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

### Interest of substantial shareholders in members of the Group (other than the Company)

| Member of the Group | Name of shareholders with 10% or more equity interest other than us | Percentage of shareholding |
|---|---|---|
| Impross Impeller (Yixing) Co., Ltd. | Ross Casting and Innovation, LLC | 33.0 |

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any persons other than the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## SHARE OPTION SCHEME

On 15 June 2018, the Company adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, pursuant to which the Company may grant options to eligible participants to subscribe for the Shares subject to the terms and conditions stipulated therein.

As at 31 December 2020, the Company has granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and there is no option granted under the Post-IPO Share Option Scheme.

## PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme is intended to provide employees of our Group with an opportunity to enjoy our success and incentives to their future performance. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Post-IPO Share Option Scheme except for the following:

(a) the subscription price per Share shall represent 20% discount to the Offer Price.

(b) save for the options which have been granted, no further options would be offered or granted, as the right to do so was ended upon the Listing Date.

The table below sets forth the movement of share options granted to Directors and other grantees under the Pre-IPO Share Option Scheme during the year ended 31 December 2020:

| | | | | Number of options [1] | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantees | Date of grant | Exercise price per option | Exercise period | Outstanding as of 1 January 2020 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as of 31 December 2020 |
| Directors | | | | | | | | |
| Ms. WANG Hui, Ina | 28/6/2019 [2] | HK$2.4 | 28/06/2022-24/12/2024 | 1,500,000 | – | – | – | 1,500,000 |
| Mr. YU Yuepeng | 28/6/2019 [2] | HK$2.4 | 28/06/2022-24/12/2024 | 1,500,000 | – | – | – | 1,500,000 |
| Ms. ZHU Liwei | 28/6/2019 [2] | HK$2.4 | 28/06/2022-24/12/2024 | 1,500,000 | – | – | – | 1,500,000 |
| Mr. WANG Dong | 28/6/2019 [2] | HK$2.4 | 28/06/2022-24/12/2024 | 1,500,000 | – | – | – | 1,500,000 |
| Other employees | 28/6/2019 [2] | HK$2.4 | 28/06/2022-24/12/2024 | 22,105,000 | – | – | (1,470,000) | 20,635,000 |
| | | | | 28,105,000 | – | – | (1,470,000) | 26,635,000 |

Notes:

(1) Number of options refers to the number of underlying Shares of the Company covered by the options under the Pre-IPO Share Option Scheme.

(2) These options shall vest in 3 equal tranches. The three tranches are exercisable during a period of 180 days immediately after the third, fourth and fifth anniversary of the Listing Date (both days inclusive).

(3) Since the Company's Shares were listed on 28 June 2019, the closing price of the Company's Shares immediately before the date on which the share options were granted was not applicable.

(4) Share options to subscribe for 1,470,000 Shares lapsed during the year following the cessation of employment of certain grantees.

The total number of Shares of the Company that could be issued upon the exercise of all outstanding share options as at the date of this report are 26,635,000, which represents approximately 1.4% of the issued share capital of the Company as at the date of this report.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme for the year ended 31 December 2020.

## POST-IPO SHARE OPTION SCHEME

The following is a summary of principal terms of the Post-IPO Share Option Scheme conditionally adopted by our Shareholders on 15 June 2018. The terms of the Post-IPO Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

The purpose of the Post-IPO Share Option Scheme is to enable our Company to grant Options (as defined below) to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to our Group and to provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (a) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; (b) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group; and/or (c) for such purposes as our Board may approve from time to time.

Eligible Participants shall be: (i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (the "Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (the "Employee"); (ii) a director or proposed director (including an independent non-executive director) of any member of our Group; (iii) a direct or indirect shareholder of any member of our Group; (iv) a supplier of goods or services to any member of our Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (vi) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (vii) an associate of any of the persons referred to in paragraphs (i) to (iii) above.

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of our Shares in issue as of the Listing Date, i.e. 183,330,000 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the "Scheme Mandate Limit") provided that: (i) Our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Company shall not exceed 10% of our Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Post-IPO Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Post-IPO Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules. (ii) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules. (iii) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time. No Options may be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Shares of the Company in issue from time to time.

Subject to the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

The amount payable on acceptance of an option is HK$1.00. The subscription price of a Share in respect of any particular option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the date of grant.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environment, Social and Governance Report of the Company prepared in accordance with Appendix 27 to the Listing Rules will be published within three months after the publication of this annual report on the websites of the Company and the Stock Exchange.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as of the date of this report, there is sufficient public float of more than 25% of the Company's issued Shares as required under the Listing Rules.

## CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 35 to 49.

## AUDITOR

KPMG shall retire and be eligible to offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

*By order of the Board*

Mr. LU Ruibo
*Chairman and Chief Executive*
Hong Kong, 11 March 2021

# Glossary

| | |
|---|---|
| "Annual General Meeting" or "AGM" | the annual general meeting of the Company |
| "Articles of Association" | the amended and restated articles of association of the Company dated 15 June 2018 with effect from the Listing Date |
| "Audit Committee" or "AC" | the Audit Committee of the Company |
| "BFG-Czech" | BFG Czech s.r.o., a limited liability company incorporated in the Czech Republic on 19 September 2007 and an indirect wholly-owned subsidiary of our Company |
| "BFG-Hessen" | BFG Feinguss Hessen GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under German law on 8 July 2009 and registered with the commercial register of the local court at Friedberg, Germany under HRB 6872, and an indirect wholly-owned subsidiary of our Company |
| "BFG-Niederrhein" | BFG Feinguss Niederrhein GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under German law on 18 September 2001 and registered with the commercial register of the local court at Kleve, Germany under HRB 6028, and an indirect wholly-owned subsidiary of our Company |
| "Board of Directors" or "Board" | our board of Directors |
| "CAGR" | compound annual growth rate |
| "Cengiz Makina" | Cengiz Makina Sanayi ve Ticaret Anonim Sirketi, a limited liability company incorporated in Turkey on 27 January 1995 and converted into a joint stock company on 30 November 2004 and an indirect wholly-owned subsidiary of our Company |
| "CG Code" | the Corporate Governance Code |
| "Chairman" | the chairman of the Board |
| "Chief Executive Officer" or "CEO" | chief executive officer of the Group |
| "Chief Financial Officer" | chief financial officer of the Group |

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| "Company", or "We", or "our", or "us" | Impro Precision Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability on 8 January 2008, the Shares of which are listed on the Main Board of the Stock Exchange |
| "Company Secretary" | company secretary of the Company |
| "Director(s)" | the director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company |
| "Euro" or "EUR" | the lawful currency of the member states of the European Union |
| "Executive Directors" or "EDs" | executive directors of the Company (unless the context requires otherwise) |
| "Group" or "Impro Group" | the Company and/or its subsidiaries |
| "HK$" or "HKD" | Hong Kong dollars |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Impro Aerospace Mexico" | Impro Aerospace Mexico, S. de R.L. de C.V., a company incorporated in Mexico on 17 February 2017 and an indirect wholly-owned subsidiary of our Company |
| "Impro Aerotek" or "Plant 3" | Impro Aerotek Limited (鷹普航空科技有限公司), renamed from Impro Aerospace Components (Wuxi) Co., Ltd. (鷹普航空零部件(無錫)有限公司) with effect from 5 November 2020, a wholly foreign-owned enterprise established in China on 9 August 2002 and an indirect wholly-owned subsidiary of our Company |
| "Impro-Bees Hydraulics" or "Plant 2" | Wuxi Impro-Bees Precision Hydraulics Co.,Ltd (無錫鷹貝精密液壓有限公司), renamed from Wuxi Impro-Bees Precision Bearing Co., Ltd. (無錫鷹貝精密軸承有限公司) with effect from 14 October 2020, a wholly foreign-owned enterprise established in China on 15 June 2006 and an indirect wholly-owned subsidiary of our Company |
| "Impro-Bees Plating & Painting" or "Plant 4" | Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司), a wholly foreign-owned enterprise established in China on 31 August 2004 and an indirect wholly-owned subsidiary of our Company |
| "Impro China" or "Plant 1 and Plant 5" | Impro (China) Limited (鷹普(中國)有限公司), a wholly foreign-owned enterprise established in China on 12 May 1995 and an indirect wholly-owned subsidiary of our Company |

# Glossary

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|---|---|
| "Impro Europe" | Impro Europe SARL, a company incorporated in Luxembourg on 29 May 2012 and an indirect wholly-owned subsidiary of our Company |
| "Impro Fluidtek" | Impro Fluidtek Limited (鷹普流體科技有限公司), a wholly foreign-owned enterprise established in China on 27 November 2020 and an indirectly wholly-owned subsidiary of our Company |
| "Impro Germany" | Impro Germany GmbH, a limited liability company incorporated in Germany on 2 May 2003 and an indirect wholly-owned subsidiary of our Company |
| "Impro Industries Mexico" | Impro Industries Mexico, S. de R.L. de C.V., a company incorporated in Mexico on 18 March 2016 and an indirect wholly-owned subsidiary of our Company |
| "Impro Taizhou" or "Plant 7" | Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司), a wholly foreign-owned enterprise incorporated in China on 30 June 2006 and an indirect wholly-owned subsidiary of our Company |
| "Impro USA" | Impro Industries USA, Inc., a corporation incorporated under the laws of the State of California, the United States, with the articles of incorporation filed on 25 November 1998 and an indirect wholly-owned subsidiary of our Company |
| "Impro Yixing" or "Plant 6" | Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司), a wholly foreign-owned enterprise incorporated in China on 19 April 2006 and an indirect wholly-owned subsidiary of our Company |
| "Impross Impeller" or "Plant 9" | Impross Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司), a sino-foreign equity joint venture limited liability company established in China on 12 February 2011 and an indirect non-wholly owned subsidiary of our Company, which is owned as to 67.0% by Impro Yixing and 33.0% by Ross Casting which is an Independent Third Party |
| "Independent Non-executive Directors" or "INEDs" | independent non-executive Directors of the Company (unless the context requires otherwise) |
| "IPO" or "Global Offering" | Initial Public Offering |
| "Listing Date" or "date of listing" | 28 June 2019 |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mexico" | United Mexican States |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Companies |
| "MPF Scheme" | Mandatory Provident Fund Scheme |

| | |
|---|---|
| "Mr. LU" | Mr. LU Ruibo |
| "Ms. WANG" | Ms. WANG Hui Ina, the spouse of Mr. Lu |
| "Nomination Committee" or "NC" | the Nomination Committee of the Company |
| "PRC" or "China" | the People's Republic of China |
| "Principles" | the principles of good corporate governance (unless the context requires otherwise) |
| "Remuneration Committee" or "RC" | the Remuneration Committee of the Company |
| "RMB" | the Renminbi |
| "Roland Berger Report" | an industry report dated 25 April 2019 on the world's casting industry commissioned by us, issued by Roland Berger, a summary of which is set forth in the section headed "Industry Overview" in the Company's prospectus |
| "SFO" | the Securities and Futures Ordinance |
| "Share(s)" | ordinary share(s) with a nominal value of HK$0.1 each in the share capital of our Company |
| "Shareholder(s)" | the holder(s) of share(s) of HK$0.1 each in the issued capital of the Company |
| "Shenhai Industrial" or "Plant 8" | Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司) (formerly known as Nantong Shenhai Special Plating Company Limited (南通市申海特種鍍飾有限責任公司)), a limited liability company established in China on 12 October 2001, which is an indirect wholly-owned subsidiary of our Company |
| "Stock Exchange", "Hong Kong Stock Exchange" or "HKEx" | The Stock Exchange of Hong Kong Limited |
| "Sustainability Committee" or "SC" | the Sustainability Committee of the Company |
| "Turish Lira" or "Lira" | Turish Lira, the lawful currency of Turkey |
| "Turkey" | the Republic of Turkey |
| "United States" or "USA" or "U.S." | the United States of America |
| "US$" | US Dollars |

# Independent auditor's report to the shareholders of Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of Impro Precision Industries Limited ("the Company") and its subsidiaries ("the Group") set out on pages 81 to 190, which comprise the consolidated statement of financial position as at 31 December 2020, 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 consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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)

| Loss allowances for trade receivables | |
|---|---|
| *Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 96 to 99.* | |
| The Key Audit Matter | How the matter was addressed in our audit |
| As at 31 December 2020, the Group's gross trade receivables amounted to HK$644 million, against which a loss allowance of HK$12 million was recorded.<br><br>Management measures the loss allowance at an amount equal to lifetime expected credit loss based on estimated loss rates for each category of receivables. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement.<br><br>We identified the loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective. | Our audit procedures to assess the loss allowance for trade receivables included the following:<br><br>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance;<br><br>• evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards;<br><br>• assessing whether items were correctly categorized in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis;<br><br>• obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the accounts receivable based on credit risk characteristics of customers and the historical default data in management's estimated loss rates;<br><br>• assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, 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; and<br><br>• re-performing the calculation of the loss allowance as at 31 December 2020 based on the Group's credit loss allowance policies. |

## KEY AUDIT MATTERS (Continued)

<table>
<tr><td colspan="2">Valuation of inventory</td></tr>
<tr><td colspan="2">Refer to Note 18 to the consolidated financial statements and the accounting policies on pages 101 to 102.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>At 31 December 2020, the Group's gross inventories totalled HK$776 million, against which provisions for inventories of HK$70 million were recorded.<br><br>The Group's inventories are valued at the lower of cost and net realizable value. The net realizable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale.<br><br>A significant proportion of the Group's finished good inventory items are manufactured to meet specific customer requirements. The Group may from time to time manufacture goods based on anticipated customer orders. There is a risk that these inventory items cannot be sold and are stated at more than their net realizable values if there is a demand issue with a customer's product that includes a component manufactured by the Group.<br><br>We identified the valuation of inventories as a key audit matter because of its significance to the Group's total assets, and because determining the net realizable value involves significant management judgement and estimation, which can be inherently subjective and increase the risk of error or potential management bias.</td><td>Our audit procedures to assess the valuation of inventory included the following:<br><br>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over making provisions for inventories;<br><br>• 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;<br><br>• evaluating whether items were correctly categorized in the finished goods inventory ageing report by comparing with production records, on a sample basis;<br><br>• inspecting the inventory ageing report to identify any slow moving and obsolete inventory items and critically assessing whether appropriate provisions have been made for slow moving and obsolete items, for which there has been a lack of recent sales transactions;<br><br>• comparing inventory level of finished good items at year end date, on a sample basis, with order backlogs and procurement plans indicated by customers in order to assess the residual risk of the inventory's realizability; and<br><br>• recalculating the Group's inventory provision with reference to recent sales prices achieved near or after the year end date.</td></tr>
</table>

## KEY AUDIT MATTERS (Continued)

| Assessing of impairment of goodwill | |
|---|---|
| *Refer to Note 14 to the consolidated financial statements and the accounting policies on pages 100 to 101.* | |
| **The Key Audit Matter** | **How the matter was addressed in our audit** |
| Goodwill arising from business combinations was allocated to the appropriate cash-generation units ("CGU") of the Group identified according to the individual business operated by Shenhai Industrial, Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") and Cengiz Makina Sanayi ve Ticaret Anonim Sirketi ("Cengiz Makina") which were acquired by the Group in 2014. During the year ended 31 December 2020, the Group recorded an impairment loss of goodwill and other assets amounted to HK$445 million.<br><br>Management performed an impairment assessment of the goodwill by comparing the carrying value of the CGU containing the goodwill with its recoverable amount at 30 June 2020 when the impairment indicators were identified. The recoverable amount is estimated by using discounted cash flow forecasts.<br><br>The preparation of discounted cash flow forecasts involves the exercise of significant management judgment, in particular in determining the appropriate long-term growth rates for earnings before interest, taxes, depreciation and amortization and discount rates. | Our audit procedures to assess the impairment of goodwill included the following:<br><br>• assessing management's identification of the CGU and the allocation of assets and liabilities to the identified CGU with reference to the requirements of the prevailing accounting standards;<br><br>• evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing data in the discounted cash flow forecasts with the relevant data, including forecasted revenue, cost of sales and operating expenses, in the financial budgets approved by the board of directors;<br><br>• comparing the forecasted revenue, cost of sales and operating expenses included in discounted cash flow forecasts prepared in the prior year with the current year's actual performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified;<br><br>• engaging our internal valuation specialists to assist us in comparing the long-term growth rates and discount rates applied in the discounted cash flow forecasts with those of comparable companies and external market data; |

(Incorporated in the Cayman Islands with limited liability)

## KEY AUDIT MATTERS (Continued)

| Assessing of impairment of goodwill | |
|---|---|
| *Refer to Note 14 to the consolidated financial statements and the accounting policies on pages 100 to 101.* | |
| The Key Audit Matter | How the matter was addressed in our audit |
| We identified the assessment of impairment of goodwill as a key audit matter because of the inherent level of complex and subjective management judgement required in assessing the variable factors and assumptions in the valuation process and because of the potential for management bias in considering the variable factors and assumptions. | • considering the disclosures in the consolidated financial statements in respect of management's impairment assessments of goodwill with reference to the requirements of the prevailing accounting standards. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong 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 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.

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.

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

- 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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.

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 March 2021

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

| | Note | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 4 | **2,924,614** | 3,640,170 |
| Cost of sales | | **(2,157,314)** | (2,508,654) |
| **Gross profit** | | **767,300** | 1,131,516 |
| Other revenue | 5(a) | **36,565** | 23,419 |
| Other net (loss)/income | 5(b) | **(27,879)** | 5,520 |
| Impairment loss of goodwill and other assets | 14 | **(445,201)** | – |
| Selling and distribution expenses | | **(116,956)** | (160,604) |
| Administrative and other operating expenses | | **(245,853)** | (303,347) |
| **(Loss)/profit from operations** | | **(32,024)** | 696,504 |
| Net finance costs | 6(a) | **(20,773)** | (57,974) |
| **(Loss)/profit before taxation** | 6 | **(52,797)** | 638,530 |
| Income tax | 7 | **(91,517)** | (99,490) |
| **(Loss)/profit for the year** | | **(144,314)** | 539,040 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(148,191)** | 538,856 |
| Non-controlling interest | | **3,877** | 184 |
| **(Loss)/profit for the year** | | **(144,314)** | 539,040 |
| **(Loss)/earnings per share** | 11 | | |
| Basic (HK$) | | **(0.079)** | 0.318 |
| Diluted (HK$) | | **(0.079)** | 0.317 |

The notes on pages 88 to 190 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the year are set out in Note 30(b).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

| | Note | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(144,314)** | 539,040 |
| **Other comprehensive income for the year (after tax adjustments)** | 10 | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Effect of remeasurement of defined benefit retirement plans obligation (net of tax of HK$1,216,000 (2019: HK$1,853,000)) | 29(a) | **(5,909)** | (7,387) |
| Equity investments at fair value through other comprehensive income (FVOCI) – net movement in fair value reserves (non-recycling) (net of tax of HK$nil (2019: HK$101,000)) | | – | (571) |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong Dollars | | **254,586** | (88,517) |
| **Other comprehensive income for the year** | | **248,677** | (96,475) |
| **Total comprehensive income for the year** | | **104,363** | 442,565 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **99,574** | 442,608 |
| Non-controlling interest | | **4,789** | (43) |
| **Total comprehensive income for the year** | | **104,363** | 442,565 |

The notes on pages 88 to 190 form part of these financial statements.

# Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Hong Kong dollars)

| | Note | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 3,256,627 | 2,884,594 |
| Prepayments for purchase of property, plant and equipment | | 25,333 | 57,071 |
| Intangible assets | 13 | 60,315 | 69,729 |
| Goodwill | 14 | – | 446,440 |
| Deferred expenses | 15 | 173,158 | 163,249 |
| Other financial asset | 17 | 1,673 | 1,572 |
| Deferred tax assets | 27(b) | 20,268 | 32,316 |
| | | 3,537,374 | 3,654,971 |
| **Current assets** | | | |
| Inventories | 18 | 705,335 | 785,812 |
| Trade and bills receivables | 19 | 748,106 | 815,987 |
| Prepayments, deposits and other receivables | 20 | 74,289 | 76,313 |
| Taxation recoverable | 27(a) | 5,206 | 768 |
| Restricted deposits | 21(b) | – | 56,623 |
| Pledged deposits | 21(b) | – | 4,803 |
| Cash and cash equivalents | 21(a) | 601,985 | 568,965 |
| | | 2,134,921 | 2,309,271 |
| **Current liabilities** | | | |
| Bank loans | 22 | 460,866 | 614,398 |
| Lease liabilities | 23 | 24,611 | 70,033 |
| Trade payables | 24 | 280,143 | 284,215 |
| Other payables and accruals | 25 | 196,157 | 258,980 |
| Taxation payable | 27(a) | 45,591 | 73,998 |
| | | 1,007,368 | 1,301,624 |
| **Net current assets** | | 1,127,553 | 1,007,647 |
| **Total assets less current liabilities** | | 4,664,927 | 4,662,618 |

The notes on pages 88 to 190 form part of these financial statements.

# Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Hong Kong dollars)

| | Note | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | 22 | **355,265** | 363,007 |
| Lease liabilities | 23 | **13,013** | 34,822 |
| Deferred income | 28 | **59,391** | 56,999 |
| Defined benefit retirement plans obligation | 29(a) | **77,824** | 67,854 |
| Deferred tax liabilities | 27(b) | **126,537** | 112,979 |
| | | **632,030** | 635,661 |
| NET ASSETS | | **4,032,897** | 4,026,957 |
| CAPITAL AND RESERVES | | | |
| Share capital | 30(c) | **188,330** | 188,330 |
| Reserves | | **3,824,807** | 3,823,656 |
| Total equity attributable to equity shareholders of the Company | | **4,013,137** | 4,011,986 |
| Non-controlling interest | | **19,760** | 14,971 |
| TOTAL EQUITY | | **4,032,897** | 4,026,957 |

Approved and authorized for issue by the board of directors on 11 March 2021.

| | | |
|---|---|---|
| | ) | |
| Lu Ruibo | ) | |
| | ) | |
| | ) | Directors |
| | ) | |
| Wang Hui, Ina | ) | |
| | ) | |
| | ) | |

The notes on pages 88 to 190 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

| | | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 | Statutory surplus reserve HK$'000 | Exchange reserve HK$'000 | Fair value reserve (non-recycling) HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interest HK$'000 | Total equity HK$'000 |
| **Balance at 1 January 2019** | | 128 | 543,673 | 1,110 | 191,026 | (173,956) | – | 2,106,101 | 2,668,082 | 15,014 | 2,683,096 |
| **Changes in equity for 2019:** | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 538,856 | 538,856 | 184 | 539,040 |
| Other comprehensive income | 10 | – | – | – | – | (88,290) | (571) | (7,387) | (96,248) | (227) | (96,475) |
| Total comprehensive income | | – | – | – | – | (88,290) | (571) | 531,469 | 442,608 | (43) | 442,565 |
| Capitalization issue | 30(c)(i) | 149,872 | (149,872) | – | – | – | – | – | – | – | – |
| Issue of ordinary shares by initial public offering and over-allotment, net of issuance costs | 30(c)(i) | 38,330 | 1,036,477 | – | – | – | – | – | 1,074,807 | – | 1,074,807 |
| Appropriation of dividends | 30(b) | – | – | – | – | – | – | (177,732) | (177,732) | – | (177,732) |
| Appropriation of reserve | 30(d)(iii) | – | – | – | 26,049 | – | – | (26,049) | – | – | – |
| Equity settled share-based transactions | 26 | – | – | 4,221 | – | – | – | – | 4,221 | – | 4,221 |
| **Balance at 31 December 2019** | | 188,330 | 1,430,278 | 5,331 | 217,075 | (262,246) | (571) | 2,433,789 | 4,011,986 | 14,971 | 4,026,957 |

The notes on pages 88 to 190 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

| | | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 | Statutory surplus reserve HK$'000 | Exchange reserve HK$'000 | Fair value reserve (non-recycling) HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interest HK$'000 | Total equity HK$'000 |
| **Balance at 1 January 2020** | | 188,330 | 1,430,278 | 5,331 | 217,075 | (262,246) | (571) | 2,433,789 | 4,011,986 | 14,971 | 4,026,957 |
| **Changes in equity for 2020:** | | | | | | | | | | | |
| Loss for the year | | – | – | – | – | – | – | (148,191) | (148,191) | 3,877 | (144,314) |
| Other comprehensive income | 10 | – | – | – | – | 253,674 | – | (5,909) | 247,765 | 912 | 248,677 |
| Total comprehensive income | | – | – | – | – | 253,674 | – | (154,100) | 99,574 | 4,789 | 104,363 |
| Appropriation of dividends | 30(b) | – | – | – | – | – | – | (105,464) | (105,464) | – | (105,464) |
| Appropriation of reserve | 30(d)(iii) | – | – | – | 14,264 | – | – | (14,264) | – | – | – |
| Equity settled share-based transactions | 26 | – | – | 7,041 | – | – | – | – | 7,041 | – | 7,041 |
| **Balance at 31 December 2020** | | 188,330 | 1,430,278 | 12,372 | 231,339 | (8,572) | (571) | 2,159,961 | 4,013,137 | 19,760 | 4,032,897 |

The notes on pages 88 to 190 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

| | Note | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 21(c) | 996,871 | 1,022,504 |
| Tax paid | | (108,219) | (48,404) |
| **Net cash generated from operating activities** | | 888,652 | 974,100 |
| **Investing activities** | | | |
| Payment for the acquisition of property, plant and equipment | | (484,965) | (458,689) |
| Proceeds from disposal of property, plant and equipment | | 7,863 | 3,258 |
| Payment for deferred expenses | | (62,540) | (70,669) |
| Interest received | | 14,920 | 13,843 |
| Payment of deferred consideration payable | | (34,875) | (4,551) |
| Decrease/(increase) in restricted deposits | | 56,623 | (56,623) |
| **Net cash used in investing activities** | | (502,974) | (573,431) |
| **Financing activities** | | | |
| Proceeds from issue of ordinary shares by initial public offering | 30(c) | – | 1,149,885 |
| Share issuance costs paid | 30(c) | – | (75,078) |
| Proceeds from bank loans | 21(d) | 736,271 | 1,637,663 |
| Repayment of bank loans | 21(d) | (900,996) | (2,453,258) |
| Interest paid | 21(d) | (34,196) | (73,562) |
| Capital element of lease rentals paid | 21(d) | (65,999) | (65,362) |
| Interest element of lease rentals paid | 21(d) | (2,927) | (5,384) |
| Dividends paid to equity shareholders of the Company | 30(b) | (105,464) | (177,732) |
| **Net cash used in financing activities** | | (373,311) | (62,828) |
| **Net increase in cash and cash equivalents** | | 12,367 | 337,841 |
| **Cash and cash equivalents at 1 January** | | 568,965 | 235,543 |
| **Effect of foreign exchange rate changes** | | 20,653 | (4,419) |
| **Cash and cash equivalents at 31 December** | 21(a) | 601,985 | 568,965 |

The notes on pages 88 to 190 form part of these financial statements.

## 1 GENERAL INFORMATION

Impro Precision Industries Limited (the "Company") was incorporated in Cayman Islands on 8 January 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 28 June 2019. The Company and its subsidiaries (collectively as the "Group") are principally engaged in the development and production of a broad range of casting products and precision machining parts and provision of surface treatment services.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (the "IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued a number of amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements of the Group for the year ended 31 December 2020 comprise the Company and its subsidiaries.

Items included in these consolidated financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The functional currency of the Company is HK$. The consolidated financial statements are presented in HK$, rounded to nearest thousands, which is the presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The preparation of financial statements in conformity with IFRSs 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 recognized 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 IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are set out in Note 3.

### (c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*

- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

None of these developments 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 this financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year except for the amendment to IFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

### (d) Subsidiaries and non-controlling interest

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Subsidiaries and non-controlling interest (Continued)

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interest 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 interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest 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 interest and the equity shareholders of the Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o) or (p) depending on the nature of the liability.

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 interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) 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.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

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 annually for impairment (see Note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognized/derecognized 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 fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 34(e). These investments are subsequently accounted for as follows, depending on their classification.

#### *(i) Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(w)(iii)).

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Other investments in debt and equity securities (Continued)

#### (i) *Investments other than equity investments* (Continued)

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

#### (ii) *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(w)(v).

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value). Freehold land held for own use are not depreciated. Items of property, plant and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(v)).

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Property, plant and equipment (Continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

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

| | Estimated useful life |
|---|---|
| Freehold land | not depreciated |
| Leasehold land | over the period of leases |
| Properties held for own use | 20 - 50 years |
| Machinery | 5 - 15 years |
| Furniture, fixtures and equipment | 4 - 10 years |
| Motor vehicles | 4 - 10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents properties under construction and machinery pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(k)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above.

No depreciation is provided in respect of construction in progress.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Intangible assets (other than goodwill)

Intangible assets that are acquired through business combination are stated at cost (the acquisition date fair value) less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

Amortization 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 amortized from the date they are available for use and their estimated useful lives are as follows:

| | Estimated useful life |
|---|---|
| Customer relationships | 3 - 10 years |
| Patents | 8 - 10 years |
| Incomplete contracts | remaining contract terms |
| Technical know-how | 10 years |

The useful lives of customer relationships are estimated based on the historical length of business relationship and turnover rate of customers of the acquirees. The useful lives of patents are estimated based on the remaining valid period of the patents. The useful lives of technical know-how are estimated based on the period of economic benefits to be derived from the products to be produced relying on the technical know-how.

Both the period and method of amortization are reviewed annually.

### (i) Deferred expenses

Deferred expenses represent direct costs attributable to specific product development projects developed for respective customers over a period of time, from which future economic benefits are expected to flow to the Group when the relevant products are sold to the customers during their product life cycle. The expense capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Deferred expenses are stated at cost less accumulated amortization and impairment losses (see Note 2(k)(ii)). Other development expense is recognized as an expense in the period in which it is incurred.

Amortization of deferred expenses is charged to profit or loss on a straight-line basis over their estimated useful lives of five years.

Both the period and method of amortization are reviewed annually.

# 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (j) 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 recognizes 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 laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized 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 amortized 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.

The right-of-use asset recognized when a lease is capitalized 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 2(g) and 2(k)(ii)).

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Leased assets (Continued)

#### (i) *As a lessee* (Continued)

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.

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 recognized in accordance with Note 2(w)(ii).

### (k) Credit losses and impairment of assets

#### (i) *Credit losses from financial instruments*

The Group recognizes a loss allowance for expected credit losses (ECLs) on financial assets measured at amortized cost (including cash and cash equivalents and trade and other receivables) and debt instruments measured at FVOCI (recycling).

Other financial assets measured at fair value, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

# 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (k) Credit losses and impairment of assets (Continued)

### *(i) Credit losses from financial instruments* (Continued)

*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 expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

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.

Loss allowances for trade and other 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, the Group recognizes 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Credit losses and impairment of assets (Continued)

#### *(i) Credit losses from financial instruments* (Continued)

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of 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 debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing 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.

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.

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 recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognized in accordance with Note 2(w)(iii) 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 amortized 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 reorganization;

– 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.

*Write-off policy*

The gross carrying amount of a financial asset 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 recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Credit losses and impairment of assets (Continued)

#### *(ii) Impairment of other non-current 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, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

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

– intangible assets;

– goodwill;

– deferred expenses; and

– investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell 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 recognized 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 recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, 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 to sell, or value in use (if determinable).

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Credit losses and impairment of assets (Continued)

#### *(ii) Impairment of other non-current assets* (Continued)

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with IAS 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 notes 2(k)(i)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (l) Inventories

Inventories are carried at the lower of cost and net realizable 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. In the case of work in progress, costs include direct labor and appropriate share of overheads based on normal operating capacity.

Net realizable 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 recognized as an expense in the period in which the related revenue is recognized.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Inventories (Continued)

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

### (m) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see Note 2(w)). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(n)).

### (n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables that are held for collection of contractual cash flows are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)). Receivables that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income.

### (o) 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 amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(v)).

### (p) Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

### (r) Employee benefits

#### *(i) Short-term employee benefits and contributions to defined contribution retirement plans*

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.

Contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdictions in which the Group's subsidiaries located are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

#### *(ii) Defined benefit retirement plans obligation*

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Employee benefits (Continued)

#### (ii) *Defined benefit retirement plans obligation* (Continued)

Service cost and net interest expense on the defined benefit liability are recognized in profit or loss and allocated by function as part of "cost of sales" or "administrative and other operating expenses". Current service cost is measured as the increase in the present value of the defined benefit plans obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense for the period is determined by applying the discount rate used to measure the defined benefit plans obligation at the beginning of each reporting period to the defined benefit liability. The discount rate is the yield at the end of each reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans obligation are recognized in other comprehensive income and reflected immediately in retained profits. Remeasurements comprise actuarial gains and losses.

#### (iii) *Share-based payments*

The fair value of share options granted to employees is recognized 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Employee benefits (Continued)

#### (iii) *Share-based payments* (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized 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 recognized 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 recognized in the capital reserve until either the option is exercised (when it is included in the amount recognized in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

### (s) 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 recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized 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 each 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 utilized, are recognized. 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 utilized.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from 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.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each 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 profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

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 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 realize 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 realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Provisions and contingent liabilities

Provisions are recognized 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 expenditures 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.

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognized 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 dates are the dates on which the Group's subsidiaries initially recognize 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 operations with functional currency other than HK$ are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Consolidated statement of financial position items are translated into HK$ at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than HK$, the cumulative amount of the exchange differences relating to that operation with functional currency other than HK$ is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Borrowing costs

Borrowing costs that 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 capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization 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. Capitalization 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.

### (w) Revenue and other income

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

Revenue is recognized when control over a product 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*

Revenue is recognized when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

#### *(ii) Rental income from operating leases*

Rental income receivable under operating leases is recognized 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 recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Revenue and other income (Continued)

#### *(iii) Interest income*

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

#### *(iv) Government grants*

Government grants are recognized 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 recognized 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 recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

#### *(v) Dividends*

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

### (x) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) Related parties (Continued)

(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 a joint venture of the other entity (or an associate or a 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.

### (y) Segment reporting

Operating segments, and the amounts of each segment item reported in the 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.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Key sources of estimation uncertainty

Notes 14 and 29(a) contains information about the assumptions and their risk factors relating to goodwill and defined benefit retirement plans obligations. Other key sources of estimation uncertainty are as follows:

#### *(i) Impairments of non-financial assets*

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

#### *(ii) Net realizable value of inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates annually.

#### *(iii) Impairment of trade and other receivables*

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Key sources of estimation uncertainty (Continued)

#### *(iv) Depreciation and amortization*

Items of property, plant and equipment other than freehold land and intangible assets are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expense for future periods are adjusted if there are significant changes from previous estimates.

#### *(v) Estimated amortization of deferred expenses*

Deferred expenses are amortized on a straight line basis over the estimated useful lives of five years. The Group reviews the estimated useful lives of the deferred expenses regularly in order to determine the amount to be charged to the profit or loss during any reporting period. The useful lives are based on the Group's historical experience with the estimated average life of the projects and taking into account of the anticipated technological changes. The amortization charge for future periods is adjusted if there are significant changes from previous estimates.

#### *(vi) Income tax*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and deferred tax assets are recognized only if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

The Group is principally engaged in the development and production of a broad range of casting products and precision machining parts.

#### *(i) Disaggregation of revenue*

Disaggregation of revenue from contracts with customers by business lines is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Investment casting | **1,307,026** | 1,682,214 |
| Precision machining | **926,604** | 1,118,650 |
| Sand casting | **435,177** | 564,467 |
| Surface treatment | **255,807** | 274,839 |
| | **2,924,614** | 3,640,170 |

The Group's revenue from contracts with customers were recognized at point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

The Group had transactions with two (2019: two) customers exceeding 10% individually of its total revenue.

The total revenue from the sales of investment casting, precision machining and sand casting products to these customers amounted to HK$768,487,000 (2019: HK$852,269,000) and arose in all three geographical regions. Details of concentrations of credit risk arising from the customers are set out in Note 34(a).

#### *(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date*

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

### 4 REVENUE AND SEGMENT REPORTING (Continued)

#### (b) Segment reporting

The Group manages its businesses by divisions, which are organized by business lines (products and services) and geography. 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 four reportable segments. No individually mentioned operating segments have been aggregated to form the following reportable segments.

- Investment casting: It is a metal forming process that casts molten metal into a ceramic mold produced by surrounding a wax pattern. The main products are automotive, industrial and others, aerospace and medical components.

- Precision machining: It uses a computerized power-driven machine tool to drill or shape metal parts with high precision specifications. The main products are automotive, hydraulic equipment and aerospace components.

- Sand casting: It is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand and molten metal is poured into the mould cavity for solidification. The main products are high horsepower engine and construction equipment components.

- Surface treatment: It primarily contains surface treatment services including plating, anodizing, painting and coating and is mainly used in automotive and aerospace end-markets.

##### *(i) Segment results and assets*

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

Segment assets include all tangible, intangible assets and current assets with the exception of other financial asset, deferred tax assets, restricted deposits, pledged deposits, cash and cash equivalents and other corporate assets.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses or which otherwise arise from the depreciation or amortization of assets attributable to those segments. However other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of technical know-how, is not measured.

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### (i) *Segment results and assets* (Continued)

The measure used for reporting segment profit is adjusted earnings before interest, taxes, depreciation, amortization and impairment loss of goodwill and other assets. To arrive at the reporting segment profit, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs. In addition, the management evaluates the performance of the Group based on the earnings before interest, taxes, depreciation, amortization and impairment loss of goodwill and other assets.

In addition to receiving segment information concerning reporting segment profit, management is provided with segment information concerning revenue (including inter-segment sales) generated by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below:

| | Year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Investment casting HK$'000 | Precision machining HK$'000 | Sand casting HK$'000 | Surface treatment HK$'000 | Total HK$'000 |
| Revenue from external customers | 1,307,026 | 926,604 | 435,177 | 255,807 | 2,924,614 |
| Inter-segment revenue | – | – | – | 22,463 | 22,463 |
| Reportable segment revenue | 1,307,026 | 926,604 | 435,177 | 278,270 | 2,947,077 |
| Gross profit from external customers | 371,406 | 206,879 | 108,323 | 80,692 | 767,300 |
| Inter-segment gross profit | – | – | – | 7,778 | 7,778 |
| Reportable segment gross profit | 371,406 | 206,879 | 108,323 | 88,470 | 775,078 |
| Depreciation and amortization | 150,165 | 119,269 | 71,518 | 47,815 | 388,767 |
| Impairment of goodwill and other assets | – | 215,071 | – | 230,130 | 445,201 |
| Reportable segment profit | 376,254 | 214,362 | 129,075 | 109,086 | 828,777 |
| Reportable segment assets | 1,914,219 | 1,786,756 | 816,764 | 535,180 | 5,052,919 |

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### *(i) Segment results and assets* (Continued)

| | Year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Investment casting HK$'000 | Precision machining HK$'000 | Sand casting HK$'000 | Surface treatment HK$'000 | Total HK$'000 |
| Revenue from external customers | 1,682,214 | 1,118,650 | 564,467 | 274,839 | 3,640,170 |
| Inter-segment revenue | – | – | – | 24,645 | 24,645 |
| Reportable segment revenue | 1,682,214 | 1,118,650 | 564,467 | 299,484 | 3,664,815 |
| Gross profit from external customers | 555,873 | 305,063 | 184,020 | 86,560 | 1,131,516 |
| Inter-segment gross profit | – | – | – | 10,703 | 10,703 |
| Reportable segment gross profit | 555,873 | 305,063 | 184,020 | 97,263 | 1,142,219 |
| Depreciation and amortization | 147,409 | 116,674 | 73,289 | 48,909 | 386,281 |
| Reportable segment profit | 515,314 | 285,962 | 193,819 | 114,753 | 1,109,848 |
| Reportable segment assets | 1,987,112 | 1,753,974 | 802,645 | 758,701 | 5,302,432 |

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### *(ii) Reconciliations of reportable segment revenues, gross profit, profit or loss and assets*

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| **Revenue** | | |
| Reportable segment revenue | **2,947,077** | 3,664,815 |
| Elimination of inter-segment revenue | **(22,463)** | (24,645) |
| Consolidated revenue | **2,924,614** | 3,640,170 |
| **Gross profit** | | |
| Reportable segment gross profit | **775,078** | 1,142,219 |
| Elimination of inter-segment gross profit | **(7,778)** | (10,703) |
| Consolidated gross profit | **767,300** | 1,131,516 |
| **Profit** | | |
| Reportable segment profit | **828,777** | 1,109,848 |
| Elimination of inter-segment profit | **(7,778)** | (10,703) |
| Reportable segment profit derived from the Group's external customers | **820,999** | 1,099,145 |
| Other revenue | **36,565** | 23,419 |
| Other net (loss)/income | **(27,879)** | 5,520 |
| Impairment loss of goodwill and other assets | **(445,201)** | – |
| Listing expenses | **–** | (18,700) |
| Unallocated head office and corporate expenses | **(27,741)** | (26,599) |
| Consolidated profit before interest, taxes, depreciation and amortization | **356,743** | 1,082,785 |
| Net finance costs | **(20,773)** | (57,974) |
| Depreciation and amortization | **(388,767)** | (386,281) |
| Consolidated (loss)/profit before taxation | **(52,797)** | 638,530 |

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### *(ii) Reconciliations of reportable segment revenues, gross profit, profit or loss and assets* (Continued)

| | As at 31 December | |
|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 |
| **Assets** | | |
| Reportable segment assets | 5,052,919 | 5,302,432 |
| Elimination of inter-segment receivables | (9,085) | (7,198) |
| | 5,043,834 | 5,295,234 |
| Other financial asset | 1,673 | 1,572 |
| Deferred tax assets | 20,268 | 32,316 |
| Restricted deposits | – | 56,623 |
| Pledged deposits | – | 4,803 |
| Cash and cash equivalents | 601,985 | 568,965 |
| Unallocated head office and corporate assets | 4,535 | 4,729 |
| Consolidated total assets | 5,672,295 | 5,964,242 |

#### *(iii) Geographical information*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, prepayments for purchase of property, plant and equipment, intangible assets, goodwill, deferred expenses and other financial asset ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, i.e. the location of the operation to which they are allocated.

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### *(iii) Geographical information* (Continued)

*Revenue from external customers*

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| **Americas** | | |
| – United States of America ("United States") | **1,073,217** | 1,480,255 |
| – Others | **87,267** | 112,256 |
| **Europe** | **932,069** | 1,197,368 |
| **Asia** | | |
| – The People's Republic of China ("PRC") | **780,845** | 769,222 |
| – Others | **51,216** | 81,069 |
| | **2,924,614** | 3,640,170 |

*Specified non-current assets*

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| United States | **11,743** | 14,774 |
| Europe | **620,466** | 849,811 |
| The PRC | **2,457,121** | 2,580,143 |
| Mexico | **427,776** | 177,927 |
| | **3,517,106** | 3,622,655 |

## 5 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

### (a) Other revenue

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Rental income (Note i) | **573** | 579 |
| Government subsidies (Note ii) | **31,838** | 18,386 |
| Others | **4,154** | 4,454 |
| | **36,565** | 23,419 |

Notes:

(i) As at 31 December 2020, the total minimum lease receivables under irrevocable operating leases agreements in the future amounted to HK$669,000 (2019: HK$990,000).

(ii) During the year ended 31 December 2020, the Group received unconditional government subsidies of HK$28,687,000 (2019: HK$15,416,000) as encouragement of their contribution in technology development, environment protection and contribution in local economy.

During the year ended 31 December 2020, the Group received conditional government subsidies of HK$2,052,000 (2019: HK$2,177,000) as subsidies for acquisition of machinery of the Group's PRC subsidiaries. During the year ended 31 December 2020, the Group recognized such subsidies of HK$3,151,000 (2019: HK$2,970,000) for acquisition of machinery and leasehold land in the profit or loss when related conditions were satisfied.

### (b) Other net (loss)/income

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Net exchange (loss)/gain | **(26,088)** | 8,722 |
| Net loss on disposal of property, plant and equipment | **(1,559)** | (2,552) |
| Others | **(232)** | (650) |
| | **(27,879)** | 5,520 |

## 6 (LOSS)/PROFIT BEFORE TAXATION

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

### (a) Net finance costs

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Interest income | (14,946) | (13,843) |
| Interest expenses on bank loans | 32,792 | 70,053 |
| Interest expenses on lease liabilities | 2,927 | 5,384 |
| Less: borrowing costs capitalized as construction in progress | – | (3,620) |
| | 35,719 | 71,817 |
| Net finance costs | 20,773 | 57,974 |

### (b) Staff costs

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Salaries, wages and other benefits | 703,512 | 828,439 |
| Contributions to defined contribution retirement plans | 75,248 | 127,099 |
| Expenses recognized in respect of defined benefit retirement plans obligation (Note 29(a)) | 4,566 | 5,207 |
| Equity settled share-based payment expenses (Note 26) | 7,041 | 4,221 |
| | 790,367 | 964,966 |

## 6 (LOSS)/PROFIT BEFORE TAXATION (Continued)

### (c) Other items

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Cost of inventories recognized as expenses* | 2,157,314 | 2,508,654 |
| Depreciation charges | | |
| – owned property, plant and equipment | 288,289 | 275,702 |
| – right-of-use assets | 23,477 | 26,510 |
| Amortization of intangible assets | 13,899 | 13,784 |
| Amortization of deferred expenses | 63,102 | 70,285 |
| Research and development expenses | 108,163 | 107,330 |
| (Reversal)/provision of impairment loss on trade and other receivables | (13,812) | 2,520 |
| Impairment loss of goodwill and other assets | 445,201 | – |
| Provision for write-down of inventories | 11,676 | 7,293 |
| Listing expenses | – | 18,700 |
| Auditors' remuneration | | |
| – Audit services | 4,565 | 4,877 |
| – Non-audit services | 565 | 2,495 |

* Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, research and development expenses, provision for write-down of inventories, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Income tax in the consolidated statement of profit or loss represents:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Current tax | | |
| *PRC Corporate Income Tax* | | |
| Provision for the year | **11,907** | 39,436 |
| (Over)/under-provision in respect of prior years | **(385)** | 594 |
| | **11,522** | 40,030 |
| *Hong Kong Profits Tax* | | |
| Provision for the year | **22,593** | 40,795 |
| Over-provision in respect of prior years | **(713)** | (1,591) |
| | **21,880** | 39,204 |
| *Tax jurisdictions outside PRC and Hong Kong* | | |
| Provision for the year | **37,014** | 9,761 |
| | **70,416** | 88,995 |
| Deferred tax | | |
| Origination and reversal of temporary differences (Note 27(b)) | **21,101** | 10,495 |
| Total income tax expense | **91,517** | 99,490 |

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the years ended 31 December 2020 and 2019. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

### (a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Notes: (Continued)

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("CIT") at statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of High Tech Enterprises (Guokefahuo [2008] No. 172), Impro (China) Limited obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019. Impro (China) Limited renewed the qualification in 2020 and was entitled to a preferential income tax of 15% from 2020 to 2022.

Wuxi Impro-Bees Precision Hydraulics Co., Ltd. and Impro Aerotek Limited obtained the qualification as high-tech enterprises and were entitled to a preferential income tax rate of 15% for the years from 2018 to 2020.

Impro Industries (Yixing) Co., Ltd. obtained the qualification as high-tech enterprises in 2016 and was entitled to a preferential income tax rate of 15% for the years from 2019 to 2021.

Nantong Shenhai Science and Industrial Technology Co., Ltd. ("Shenhai Industrial") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2019 to 2021.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on interests and dividends from their PRC resident investees for intra-group interest borrowings and earnings accumulated beginning on 1 January 2008, at 7% and 10% (unless reduced by tax treaties or similar arrangements), respectively.

Under the arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group's investments in the PRC subsidiaries meet those requirements for a preferential rate of 5%.

(iv) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiary in the United States was liable to United States Corporation Income Tax at a rate of 27.2% and 27.5%, comprising federal income tax at a flat rate and state income tax at a rate ranging from 6% to 9.99% during the years ended 31 December 2020 and 2019, respectively.

(v) Pursuant to the income tax rules and regulations of Germany, BFG Feinguss Niederrhein GmbH and Impro Germany GmbH were liable to the German Corporate Tax at a rate of 32.6% during the years ended 31 December 2020 and 2019. BFG Feinguss Hessen GmbH was liable to the German Corporate Tax at a rate of 29.5% during the years ended 31 December 2020 and 2019.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

### (a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Notes: (Continued)

(vi) Pursuant to the income tax rules and regulations of Luxembourg, the Group's subsidiary in Luxembourg was liable to the Luxembourg Corporate Tax at a rate of 26% during the years ended 31 December 2020 and 2019.

(vii) Pursuant to the income tax rules and regulations of Czech, the Group's subsidiary in Czech was liable to the Czech Corporate Tax at a rate of 19% during the years ended 31 December 2020 and 2019.

(viii) Pursuant to the income tax rules and regulations of Turkey, the Group's subsidiary in Turkey, Cengiz Makina Sanayi ve Ticaret Anonim Sirketi (Cengiz Makina) was liable to the Turkey Corporate Tax at a rate of 22% for the years ended 31 December 2020 and 2019.

According to Turkey Corporate Income Tax Law, Cengiz Makina was entitled to investment tax incentives. Income arising from qualifying investments was subject to reduced Turkey Corporate Income Tax rate. These investment tax incentives reduced the income tax expense by HK$nil (2019: HK$nil) during the year ended 31 December 2020.

According to the prevailing Turkey Corporate Income Tax Law and its relevant regulations, non-Turkey tax resident enterprises are levied withholding tax on dividends from their Turkey resident investees for 15% of accumulated earnings (unless reduced by tax treaties or similar arrangements).

Under the Arrangement between the Grand Duchy of Luxembourg and the Republic of Turkey for the Avoidance of Double Taxation and the Preventing of Fiscal Evasion with respect to Taxes on Income and on Capital and its relevant regulations, dividends paid by a Turkey resident enterprise to its direct holding company in Luxembourg will be subject to withholding tax at a reduced rate of 10% (if the Luxembourg investor is a company and owns directly at least 25% of the equity interest of the Turkey resident). The Group's investments in the Turkey subsidiary meet those requirements for a preferential rate of 10%.

(ix) Pursuant to the income tax rules and regulations of Mexico, the Group's subsidiaries in Mexico, Impro Industries Mexico, S. de R.L. de C.V. and Impro Aerospace Mexico, S. de R.L. de C.V. were liable to the Mexico Tax at a rate of 30% during the years ended 31 December 2020 and 2019.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

### (b) Reconciliation between tax expense and (loss)/profit before taxation at applicable tax rates:

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$'000 | 2019<br>HK$'000 |
| (Loss)/profit before taxation | (52,797) | 638,530 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | (12,919) | 142,405 |
| Tax effect of non-deductible expenses | 5,762 | 4,820 |
| Tax effect of non-taxable income | (9,783) | (6,017) |
| Tax effect of goodwill impairment loss | 105,857 | – |
| Tax effect of tax losses not recognized | 11,643 | 4,080 |
| Tax effect of previously unrecognized tax losses now recognized | (307) | – |
| Tax effect of exchange gain arising from different functional and tax filing currency | 13,462 | – |
| Provision of withholding tax on undistributed profits | 11,737 | – |
| Effect of PRC tax concessions obtained | (20,565) | (34,194) |
| PRC bonus deduction of research and development expense | (12,272) | (10,607) |
| Over-provision in prior years | (1,098) | (997) |
| Actual tax expense | 91,517 | 99,490 |

## 8 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | Year ended 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contributions HK$'000 | Sub-Total HK$'000 | Share-based payments (Note) HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | | | |
| Lu Ruibo | 300 | 2,983 | – | 240 | 3,523 | – | 3,523 |
| Wang Hui, Ina | 300 | 2,189 | – | 107 | 2,596 | 406 | 3,002 |
| Zhu Liwei | 300 | 1,413 | – | 41 | 1,754 | 406 | 2,160 |
| Yu Yuepeng | 300 | 1,368 | – | 74 | 1,742 | 406 | 2,148 |
| Wang Dong | 300 | 1,383 | – | 43 | 1,726 | 406 | 2,132 |
| **Independent non-executive directors** | | | | | | | |
| Yu Kwok Kuen Harry | 300 | – | – | – | 300 | – | 300 |
| Yen Gordon | 300 | – | – | – | 300 | – | 300 |
| Lee Siu Ming | 300 | – | – | – | 300 | – | 300 |
| Total | 2,400 | 9,336 | – | 505 | 12,241 | 1,624 | 13,865 |

## 8 DIRECTORS' REMUNERATION (Continued)

| | Year ended 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contributions HK$'000 | Sub-Total HK$'000 | Share-based payments (Note) HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | | | |
| Lu Ruibo | 300 | 2,994 | – | 222 | 3,516 | – | 3,516 |
| Wang Hui, Ina | 300 | 2,056 | 193 | 101 | 2,650 | 209 | 2,859 |
| Zhu Liwei | 300 | 1,091 | 653 | 91 | 2,135 | 209 | 2,344 |
| Yu Yuepeng | 300 | 1,080 | 653 | 91 | 2,124 | 209 | 2,333 |
| Wang Dong | 300 | 898 | 824 | 91 | 2,113 | 209 | 2,322 |
| **Independent non-executive directors** | | | | | | | |
| Yu Kwok Kuen Harry (appointed on 1 April 2019) | 225 | – | – | – | 225 | – | 225 |
| Yen Gordon (appointed on 1 April 2019) | 225 | – | – | – | 225 | – | 225 |
| Lee Siu Ming (appointed on 1 April 2019) | 225 | – | – | – | 225 | – | 225 |
| Total | 2,175 | 8,119 | 2,323 | 596 | 13,213 | 836 | 14,049 |

Note:

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 2(r)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued where grants of equity instruments are forfeited prior to vesting.

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 Report of the Directors and Note 26.

## 9 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2019: three) directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the paid amount to remaining individuals of the Group are as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 |
| Salaries, allowances and benefits in kind | 6,758 | 4,396 |
| Discretionary bonuses | – | 1,805 |
| Share-based payments | 751 | 273 |
| Retirement scheme contributions | 292 | 177 |
| | 7,801 | 6,651 |

The emoluments of the three (2019: two) individuals with the highest emoluments are within the following bands:

| | Year ended 31 December | |
|---|---|---|
| | 2020 Number of individuals | 2019 Number of individuals |
| HK$nil to HK$1,000,000 | – | – |
| HK$1,000,001 to HK$2,000,000 | – | – |
| HK$2,000,001 to HK$3,000,000 | 3 | 1 |
| HK$3,000,001 to HK$4,000,000 | – | 1 |

## 10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

| | Remeasurement of defined benefit retirement plans obligation HK$'000 | Equity investments at FVOCI-net movement in fair value reserves (non-recycling) HK$'000 | Exchange differences on translation of financial statements HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| For the year ended 31 December 2020 | | | | |
| Before-tax amount | (7,125) | – | 254,586 | 247,461 |
| Tax benefit | 1,216 | – | – | 1,216 |
| Net-of-tax amount | (5,909) | – | 254,586 | 248,677 |
| For the year ended 31 December 2019 | | | | |
| Before-tax amount | (9,240) | (672) | (88,517) | (98,429) |
| Tax benefit | 1,853 | 101 | – | 1,954 |
| Net-of-tax amount | (7,387) | (571) | (88,517) | (96,475) |

## 11 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$148,191,000 (2019: profit of HK$538,856,000) and the weighted average of 1,883,295,000 ordinary shares (2019: 1,693,496,630 shares) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

| | 2020 | 2019 |
|---|---|---|
| Issued ordinary shares at 1 January | 1,883,295,000 | 1,277,912 |
| Effect of capitalization issue (Note 30(c)) | – | 1,498,722,088 |
| Effect of shares issued by initial public offering (Note 30(c)) | – | 193,496,630 |
| Weighted average number of ordinary shares at 31 December | 1,883,295,000 | 1,693,496,630 |

### (b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the company of HK$148,191,000 (2019: profit of HK$538,856,000) and the weighted average number of ordinary shares of 1,883,295,000 shares (2019: 1,697,823,319 shares), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

| | 2020 | 2019 |
|---|---|---|
| Weighted average number of ordinary shares at 31 December | 1,883,295,000 | 1,693,496,630 |
| Effect of deemed issue of shares under the Company's share option scheme (Note 26) | – | 4,326,689 |
| Weighted average number of ordinary shares (diluted) at 31 December | 1,883,295,000 | 1,697,823,319 |

For the year ended 31 December 2020, the Company has the outstanding share options under the Company's share option scheme as the dilutive potential ordinary shares. The dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share was the same as basic loss per share of the year ended 31 December 2020.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Freehold land HK$'000 | Leasehold Land (Note i) HK$'000 | Properties held for own use (Note i) HK$'000 | Machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At 1 January 2019 | 90,184 | 106,410 | 1,098,226 | 2,449,235 | 285,838 | 30,478 | 215,687 | 4,276,058 |
| Additions | 33,445 | 4,168 | 9,379 | 53,434 | 25,746 | 458 | 343,631 | 470,261 |
| Transfers | – | – | 128,058 | 280,859 | 12,812 | – | (421,729) | – |
| Disposals | – | (1,106) | (429) | (24,092) | (5,901) | (2,217) | – | (33,745) |
| Exchange adjustment | (1,921) | (2,426) | (25,305) | (59,740) | (6,658) | (661) | (2,735) | (99,446) |
| At 31 December 2019 and 1 January 2020 | 121,708 | 107,046 | 1,209,929 | 2,699,696 | 311,837 | 28,058 | 134,854 | 4,613,128 |
| Additions | – | 53,848 | 65 | 27,690 | 32,542 | 3,890 | 384,210 | 502,245 |
| Transfers | – | – | 19,692 | 100,416 | 9,927 | – | (130,035) | – |
| Disposals | – | – | – | (20,455) | (3,431) | (2,968) | – | (26,854) |
| Exchange adjustment | 6,336 | 9,840 | 80,885 | 189,254 | 22,111 | 1,170 | 19,917 | 329,513 |
| At 31 December 2020 | 128,044 | 170,734 | 1,310,571 | 2,996,601 | 372,986 | 30,150 | 408,946 | 5,418,032 |
| Accumulated depreciation and impairment: | | | | | | | | |
| At 1 January 2019 | – | 17,388 | 215,018 | 1,055,461 | 186,436 | 18,373 | – | 1,492,676 |
| Charge for the year | – | 2,212 | 42,127 | 216,789 | 38,134 | 2,950 | – | 302,212 |
| Written back on disposals | – | (278) | (313) | (20,102) | (5,296) | (1,946) | – | (27,935) |
| Exchange adjustment | – | (411) | (5,371) | (27,636) | (4,569) | (432) | – | (38,419) |
| At 31 December 2019 and 1 January 2020 | – | 18,911 | 251,461 | 1,224,512 | 214,705 | 18,945 | – | 1,728,534 |
| Charge for the year | – | 2,337 | 44,720 | 224,274 | 37,874 | 2,561 | – | 311,766 |
| Written back on disposals | – | – | – | (11,703) | (2,940) | (2,789) | – | (17,432) |
| Impairment | – | – | – | 4,679 | 109 | 23 | – | 4,811 |
| Exchange adjustment | – | 1,278 | 18,285 | 97,829 | 15,659 | 675 | – | 133,726 |
| At 31 December 2020 | – | 22,526 | 314,466 | 1,539,591 | 265,407 | 19,415 | – | 2,161,405 |
| Net book value: | | | | | | | | |
| At 31 December 2020 | 128,044 | 148,208 | 996,105 | 1,457,010 | 107,579 | 10,735 | 408,946 | 3,256,627 |
| At 31 December 2019 | 121,708 | 88,135 | 958,468 | 1,475,184 | 97,132 | 9,113 | 134,854 | 2,884,594 |

## 12 PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

(i) The Group obtains the right to use certain land in the PRC under several operating lease agreements of 50 years. As at 31 December 2020, the carrying amounts of leasehold land held for own use were HK$148,208,000 (2019: HK$88,135,000), and the carrying amount of properties held for own use thereon were HK$843,295,000 (2019: HK$805,755,000).

(ii) Certain property, plant and equipment of the Group were pledged as security for bank loans. Details are set out as follows:

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Freehold land | **10,691** | 9,783 |
| Machinery | **5,045** | 5,800 |
| Aggregate carrying value of pledged property, plant and equipment | **15,736** | 15,583 |

(iii) The board of directors of the Company identified the impairment indicator that the estimated recoverable amount of the CGUs of Shenhai Group and Cengiz Makina were lower than their carrying amounts. An impairment loss of HK$445,201,000 was recognized in "Impairment loss of goodwill and other assets" in consolidated statement of profit or loss and other comprehensive income. Impairment loss of HK$4,811,000 were allocated to property, plant and equipment in the CGUs on the basis of the carrying amount of each asset in the CGUs.

### Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Leasehold land, carried at depreciated cost in the PRC, with remaining lease term of between 10 and 50 years | **148,208** | 88,135 |
| Properties held for own use, carried at depreciated cost | **13,706** | 17,975 |
| Furniture, fixtures and equipment, carried at depreciated cost | **1,947** | 2,334 |
| Machinery, carried at depreciated cost | **167,017** | 168,494 |
| Motor vehicles, carried at depreciated cost | **615** | 976 |
| | **331,493** | 277,914 |

## 12 PROPERTY, PLANT AND EQUIPMENT (Continued)

### Right-of-use assets (Continued)

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Depreciation charge of right-of-use assets by class of underlying asset: | | |
| Leasehold land | **2,337** | 2,212 |
| Properties held for own use | **4,121** | 7,005 |
| Furniture, fixtures and equipment | **562** | 550 |
| Machinery | **16,036** | 16,675 |
| Motor vehicles | **421** | 68 |
| | **23,477** | 26,510 |
| Interest on lease liabilities (Note 6(a)) | **2,927** | 5,384 |
| Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019 | **1,806** | 2,456 |
| Expense relating to leases of low-value assets, excluding short-term leases of low-value assets | **234** | 84 |

During the year ended 31 December 2020, additions to right-of-use assets were HK$53,907,000 (2019: HK$31,820,000). This amount included the acquisition of leasehold land of HK$53,848,000 (2019: HK$4,168,000), and the remainder primarily related to the capitalized lease payments under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in Notes 21(e) and 23, respectively.

## 13 INTANGIBLE ASSETS

| | Customer relationships HK$'000 | Patents HK$'000 | Incomplete contracts HK$'000 | Technical know-how HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2019 | 187,238 | 9,847 | 84,862 | 24,073 | 306,020 |
| Exchange adjustment | (4,514) | (215) | (2,192) | (523) | (7,444) |
| **At 31 December 2019 and 1 January 2020** | 182,724 | 9,632 | 82,670 | 23,550 | 298,576 |
| Disposals | – | – | (90,347) | – | (90,347) |
| Exchange adjustment | 14,697 | 619 | 7,677 | 1,506 | 24,499 |
| At 31 December 2020 | 197,421 | 10,251 | – | 25,056 | 232,728 |
| **Accumulated amortization and impairment:** | | | | | |
| At 1 January 2019 | 127,422 | 4,899 | 84,862 | 3,333 | 220,516 |
| Charge for the year | 10,337 | 1,064 | – | 2,383 | 13,784 |
| Exchange adjustment | (3,023) | (126) | (2,192) | (112) | (5,453) |
| At 31 December 2019 and 1 January 2020 | 134,736 | 5,837 | 82,670 | 5,604 | 228,847 |
| Charge for the year | 10,485 | 1,054 | – | 2,360 | 13,899 |
| Impairment | 384 | 36 | – | – | 420 |
| Written back on disposals | – | – | (90,347) | – | (90,347) |
| Exchange adjustment | 10,999 | 435 | 7,677 | 483 | 19,594 |
| At 31 December 2020 | 156,604 | 7,362 | – | 8,447 | 172,413 |
| **Net book value:** | | | | | |
| At 31 December 2020 | 40,817 | 2,889 | – | 16,609 | 60,315 |
| At 31 December 2019 | 47,988 | 3,795 | – | 17,946 | 69,729 |

## 13 INTANGIBLE ASSETS (Continued)

Intangible assets represent customer relationships and patents acquired by the Group in connection with the acquisition of Shenhai Industrial, Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") completed on 3 June 2014, customer relationships, incomplete contracts and technical know-how acquired by the Group in connection with the acquisition of Cengiz Makina completed on 26 August 2014 and technical know-how acquired by the Group in connection with the acquisition of Impross Impeller completed on 23 August 2017. The amortization charge for the years ended 31 December 2020 and 2019 is included in "Administrative and other operating expenses" in the consolidated statement of profit or loss.

The management of the Group identified the impairment indicator that the estimated recoverable amount of the CGUs of Shenhai Group and Cengiz Makina were lower than their carrying amounts. An impairment loss of HK$445,201,000 was recognized "Impairment loss of goodwill and other assets" in consolidated statement of profit or loss and other comprehensive income. Impairment loss of HK$420,000 were allocated to intangible asset in the CGUs on the basis of the carrying amount of each asset in the CGUs.

## 14 GOODWILL

| | HK$'000 |
|---|---|
| **Cost:** | |
| At 1 January 2019 | 598,490 |
| Exchange adjustment | (13,958) |
| At 31 December 2019 and 1 January 2020 | 584,532 |
| Exchange adjustment | (7,370) |
| At 31 December 2020 | 577,162 |
| **Accumulated impairment losses:** | |
| At 1 January 2019 | (141,178) |
| Exchange adjustment | 3,086 |
| At 31 December 2019 and 1 January 2020 | (138,092) |
| Impairment loss | (439,970) |
| Exchange adjustment | 900 |
| At 31 December 2020 | (577,162) |
| **Carrying amount:** | |
| At 31 December 2020 | – |
| At 31 December 2019 | 446,440 |

## 14 GOODWILL (Continued)

### Impairment tests for cash-generating unit containing goodwill

For the purpose of goodwill impairment testing, goodwill arising from the business combination was allocated to the appropriate cash-generation units ("CGU") of the Group identified according to the individual business operated by Shenhai Group and Cengiz Makina acquired by the Group in 2014.

Goodwill is allocated to the Group's CGU as follows:

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Shenhai Group | – | 231,168 |
| Cengiz Makina | – | 215,272 |
| | – | 446,440 |

Since the outbreak of COVID-19 pandemic throughout Europe and North America in March 2020, most of the Group's European and North American customers have implemented various extent of plant shutdowns, which have reduced the Group's revenue and operating profit significantly. The management believes that the high unemployment rate in the short-and-medium period, fuelled by COVID-19 globally, and the threat of a potential second or third COVID-19 wave will, undermine consumers' confidence continually. While growth in demand is anticipated for the medium-and-long-term period, the global impact of the pandemic on Shenhai Group and Cengiz Makina acquired by the Group in 2014 from certain independent third parties that primarily serve the automotive market has been immediate. Taking into account the combined impact of the unprecedented COVID-19 pandemic and the expected slow recovery from market conditions and industry outlook, the management team conducted an impairment test on goodwill and other assets as at 30 June 2020.

The recoverable amount of the CGU 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. Key assumptions used for the value in use calculations are the budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the five-year projection period and the discount rate.

## 14 GOODWILL (Continued)

### Impairment tests for cash-generating unit containing goodwill (Continued)

Budgeted EBITDA growth rate in the five-year projection period was estimated taking into account of revenue, gross margins and operating expenses based on past performance and its expectation for market development. Due to the unprecedented economic impact of COVID-19, industry forecasts for demand in automotive end markets has reduced significantly. The management of the Group has revised the financial budgets of Shenhai Group and Cengiz Makina based on their actual financial performance for the first six months ended 30 June 2020, the current market conditions and the industry outlook. As a result, budgeted EBITDA for the year ending 31 December 2020 were expected to decrease by 26.7% and 43.6% for Shenhai Group and Cengiz Makina respectively for 2020 compared to the 2020 budgeted EBITDA made in prior year. The budget EBITDA growth rate were expected to grow at an average rate by 7.8% and 16.7% annually until 2025 (31 December 2019: 13.7% and 8.5% annually until 2024) for Shenhai Group and Cengiz Makina respectively, with a perpetual growth rate of 2% (31 December 2019: 2%) thereafter for both Shenhai Group and Cengiz Makina as at 30 June 2020.

The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU. The cash flows are discounted using pre-tax discount rate of 12.5% and 14.5% (31 December 2019: 12.3% and 13.7%) for Shenhai Group and Cengiz Makina respectively as at 30 June 2020.

The result indicated that the estimated recoverable amount of the CGUs of Shenhai Group and Cengiz Makina were lower than their carrying amounts by HK$230,130,000 and HK$215,071,000 (31 December 2019: exceeded their carrying amounts by HK$62,426,000 and HK$162,198,000) respectively as at 30 June 2020. Accordingly, impairment loss of HK$439,970,000 (31 December 2019: HK$ nil) were allocated to fully write off the goodwill of the CGUs and impairment loss of HK$5,231,000 (31 December 2019: HK$ nil) were allocated pro rata to other assets in the CGUs, on the basis of the carrying amount of each asset in the CGUs for the six months ended 30 June 2020. The management of the Group further assessed the impairment review of the other assets and considered that there is no material change in the previously recognised loss as of 31 December 2020.

## 15 DEFERRED EXPENSES

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| **Cost:** | | |
| At the beginning of the year | **494,431** | 477,391 |
| Additions | **62,540** | 70,669 |
| Disposals | **(38,756)** | (40,387) |
| Exchange adjustment | **42,678** | (13,242) |
| At the end of the year | **560,893** | 494,431 |
| **Accumulated amortization:** | | |
| At the beginning of the year | **331,182** | 310,879 |
| Charge for the year | **63,102** | 70,285 |
| Disposals | **(38,756)** | (40,387) |
| Exchange adjustment | **32,207** | (9,595) |
| At the end of the year | **387,735** | 331,182 |
| **Net book value:** | | |
| At the end of the year | **173,158** | 163,249 |
| At the beginning of the year | **163,249** | 166,512 |

The amortization charges for the years ended 31 December 2020 and 2019 were included in "cost of sales" in the consolidated statement of profit or loss.

## 16 INTEREST 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.

| Company name | Place of incorporation and business | Particulars of issued and paid-in capital | Proportion of ownership interest held by the Company: Directly | Proportion of ownership interest held by the Company: Indirectly | Principal activities |
|---|---|---|---|---|---|
| Impro Holdings Limited | The British Virgin Islands | United States Dollar ("US$") 128,206 | 100% | – | Investment holding |
| Impro International Limited | Hong Kong | HK$1,000,000 | – | 100% | Investment holding and sales of investment casting, sand casting and precision machining products and provision of corporate and business development and customer relationship management functions |
| Impro Investment (Hong Kong) Limited | Hong Kong | HK$100 | – | 100% | Investment holding |
| Impro (China) Limited (鷹普(中國)有限公司) | The PRC – wholly foreign-owned enterprise | US$101,800,000 | – | 100% | Manufacturing investment casting, sand casting and precision machining products |
| Wuxi Impro-Bees Precision Hydraulics Co., Ltd. (無錫鷹貝精密液壓有限公司) (Formerly known as "Wuxi Impro-Bees Precision Bearing Co., Ltd. (無錫鷹貝精密軸承有限公司)") | The PRC – wholly foreign-owned enterprise | US$15,800,000 | – | 100% | Manufacturing precision machining products |
| Impro Aerotek Limited (鷹普航空科技有限公司) (Formerly known as "Impro Aerospace Components (Wuxi) Co., Ltd. (鷹普航空零部件(無錫)有限公司)") | The PRC – wholly foreign-owned enterprise | US$55,000,000 | – | 100% | Manufacturing investment casting and precision machining products |
| Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司) | The PRC – wholly foreign-owned enterprise | US$1,000,000 | – | 100% | Providing surface treatment, including plating, anodizing, painting and coating |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 16 INTEREST IN SUBSIDIARIES (Continued)

| Company name | Place of incorporation and business | Particulars of issued and paid-in capital | Proportion of ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司) | The PRC – wholly foreign-owned enterprise | US$53,800,000 | – | 100% | Manufacturing investment casting and sand casting products |
| Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司) | The PRC – wholly foreign-owned enterprise | US$6,500,000 | – | 100% | Manufacturing sand casting products |
| Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司) | The PRC – domestic enterprise | Chinese Yuan ("RMB") 10,430,000 | – | 100% | Providing surface treatment, including plating, anodizing, painting and coating |
| Haimen Xinhai Special Plating Co., Ltd. (海門鑫海特種鍍飾有限公司) | The PRC – wholly foreign-owned enterprise | US$3,500,000 | – | 100% | Dormant |
| Impross Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司) | The PRC – equity joint venture | US$2,969,696.97 | – | 67% | Manufacturing machining parts and impellers |
| Impro Fluidtek Limited (鷹普流體科技有限公司) | The PRC – wholly foreign-owned enterprise | US$300,000 | – | 100% | Manufacturing precision machining products |
| Impro Industries USA, Inc. | United States | US$500,000 | – | 100% | Managing logistic centre, warehouses, sales of investment casting, sanding casting and precision machining products and provision of customer maintenance service |
| Impro Europe SARL | Luxembourg | Euro ("EUR") 20,000 | – | 100% | Investment holding, managing logistic centre, sales of investment casting, sand casting and precision machining products and provision of customer maintenance service |
| Impro Germany GmbH | Germany | EUR250,000 | – | 100% | Provision of customer maintenance service |

## 16 INTEREST IN SUBSIDIARIES (Continued)

| Company name | Place of incorporation and business | Particulars of issued and paid-in capital | Proportion of ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| BFG Feinguss Niederrhein GmbH | Germany | EUR490,000 | – | 100% | Manufacturing investment casting products |
| BFG Feinguss Hessen GmbH | Germany | EUR25,000 | – | 100% | Manufacturing investment casting products |
| BFG Czech s.r.o. | Czech Republic | Czech Koruna 1,450,000 | – | 100% | Manufacturing investment casting products |
| Cengiz Makina Sanayi ve Ticaret Anonim Sirketi | Turkey | Turkish Lira ("TL") 7,005,000 | – | 100% | Manufacturing precision machining products |
| Impro Industries Mexico, S. de R.L. de C.V. | Mexico | Mexican Peso ("MXN") 1,006,971,392 | – | 100% | Manufacturing precision machining products |
| Impro Aerospace Mexico, S. de R.L. de C.V. | Mexico | MXN79,307,802 | – | 100% | Manufacturing aerospace end-market products |

## 17 OTHER FINANCIAL ASSET

| | At 31 December 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Equity securities at FVOCI (non-recycling) | | |
| – Unlisted equity securities | **1,673** | 1,572 |

The unlisted equity securities are shares in a private company incorporated in the PRC and primarily engaged in financial guarantee business. The Group designated its investment at FVOCI (non-recycling). No dividends were received on this investment during the years ended 31 December 2020 and 2019.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 34(e).

## 18 INVENTORIES

### (a) Inventories in the consolidated statement of financial position comprise:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Raw materials | 192,705 | 157,337 |
| Work in progress | 271,096 | 309,271 |
| Finished goods | 311,767 | 373,664 |
| | 775,568 | 840,272 |
| Write down of inventories | (70,233) | (54,460) |
| | 705,335 | 785,812 |

### (b) The analysis of the amount of inventories recognized as an expense and included in the consolidated statement of profit or loss is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Carrying amount of inventories sold | 2,145,638 | 2,501,361 |
| Provision for write-down of inventories | 11,676 | 7,293 |
| | 2,157,314 | 2,508,654 |

All inventories are expected to be recovered within one year.

## 19 TRADE AND BILLS RECEIVABLES

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Trade receivables | 644,348 | 766,544 |
| Bills receivable | 115,799 | 79,091 |
| | 760,147 | 845,635 |
| Less: loss allowance | (12,041) | (29,648) |
| | 748,106 | 815,987 |

All of the trade and bills receivables are expected to be recovered within one year.

The bills receivables held by the Group are achieved by both collecting contractual cash flows and selling financial assets, which are measured at fair value through other comprehensive income.

## 19 TRADE AND BILLS RECEIVABLES (Continued)

### Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of allowance for loss allowance, is as follows:

| | At 31 December | |
|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 |
| Within 1 month | 406,523 | 407,826 |
| 1 to 3 months | 284,133 | 344,767 |
| Over 3 months but within 12 months | 57,450 | 63,394 |
| | 748,106 | 815,987 |

Trade and bills receivables are generally due within 15-120 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 34(a).

## 20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | At 31 December | |
|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 |
| Prepayments | 32,110 | 34,004 |
| Value added tax recoverable | 30,238 | 36,097 |
| Other deposits and receivables | 11,941 | 17,806 |
| | 74,289 | 87,907 |
| Less: loss allowance (Note i) | – | (11,594) |
| | 74,289 | 76,313 |

## 20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Note:

(i) Subsequent to the completion of acquisition of Shenhai Group in June 2014, the Group entered into supplemental agreements with the former shareholders of Shenhai Group in November 2014 and June 2015, respectively, to finalize the consideration of the transfer of ownership interest of Shenhai Group under the original acquisition agreement between the Group and former shareholders of Shenhai Group (the "Seller"). The consideration was payable by instalment and the unpaid portion of HK$23,581,000 as at 31 December 2020 (2019: HK$56,623,000) was fully recognized in the consolidated statement of financial position.

From 2014 to March 2015, the Group made several instalment payments to the Seller. Subsequently in August 2015, the Group made another payment totalling RMB88,604,000 to the Seller. Based on the instruction from the Seller, the Group also paid RMB8,000,000 to the Seller's representative and RMB8,000,000 to a law firm in China (the "Dissenting Payments"), which were recorded as settlement of the consideration payable. In July 2016, however, the Seller filed an arbitration application with Shanghai International Economic and Trade Arbitration Commission, claiming the Dissenting Payments of RMB16,000,000 and certain late penalties on the settlement of the consideration.

The arbitral tribunal issued the arbitration award in January 2018 in favor of the Seller's claim that the Group shall make the outstanding payment of RMB16,000,000 to the Seller. In February 2018, the Group requested the Seller's representative and the law firm which received the Dissenting Payments to return the aggregate RMB16,000,000 to the Group.

In February 2018, the Group filed an application to institute an action at the Shanghai Second Intermediate People's Court to revoke the arbitration award but the application was rejected. To protect the Group's interests, the Group appealed to the local People's Court in Wuxi on 3 July 2018 claiming that the Seller and the Seller's representative have committed a tort fraud, which has been rejected on 30 September 2018. The Group has made a further appeal to such rejection decision but it has been rejected again on 27 November 2018.

On 8 January 2019, the Group appealed to the local People's Court in Shanghai by claiming the domestic law firm's unjust enrichment amounting to RMB8,000,000, being a portion of the Dissenting Payments. On 12 November 2019, the local People's Court in Shanghai made the court decision in favor of the Group's claim. The domestic law firm further appealed for the second instance. On 23 April 2020, the local People's Court in Shanghai rejected the domestic law firm's appeal and uphold the decision in favor of the Group's claim of RMB8,000,000.

On 18 April 2019, the Group sued the Seller's representative at the local People's Court in Wuxi. claiming for the repayment of RMB8,000,000 as well as alleging criminal offence of embezzlement. On 21 May 2019, the Group and the Seller's representative reached an accord with satisfaction that the Seller's representative committed to repay the amount in instalments. During the year ended 31 December 2020, the Group received RMB2,000,000 (2019: RMB6,000,000) from the Seller's representative and RMB8,000,000 (2019: RMB nil) from the law firm respectively. As at 31 December 2020, all the Dissenting Payments have been returned to the Group.

All of prepayments, deposits and other receivables balances are expected to be recovered or recognized as expense within one year. The Group's exposure to credit risk related to prepayments, deposits and other receivables is disclosed in Note 34(a).

## 21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS

### (a) Cash and cash equivalents comprise:

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Cash at bank | **601,723** | 568,709 |
| Cash in hand | **262** | 256 |
| | **601,985** | 568,965 |

### (b) Pledged deposits and restricted deposits comprise:

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Pledged deposits for | | |
| – issuance of letters of credit | **–** | 4,803 |

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Restricted deposits | **–** | 56,623 |

The pledged bank deposits will be released upon the settlement of the relevant letters of credit by the Group or the termination of relevant banking facilities.

## 21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

### (c) Reconciliation of (loss)/profit before taxation to cash generated from operations

| | | Year ended 31 December | |
|---|---|---|---|
| | | 2020 | 2019 |
| | Note | HK$'000 | HK$'000 |
| (Loss)/profit before taxation | | (52,797) | 638,530 |
| Adjustments for: | | | |
| – Depreciation of property, plant and equipment | 6(c) | 311,766 | 302,212 |
| – Amortization of intangible assets | 6(c) | 13,899 | 13,784 |
| – Amortization of deferred expenses | 6(c) | 63,102 | 70,285 |
| – Net finance costs | 6(a) | 20,773 | 57,974 |
| – Net loss on disposal of property, plant and equipment | 5(b) | 1,559 | 2,552 |
| – Impairment loss of goodwill and other assets | 6(c) | 445,201 | – |
| – (Reversal)/provision of impairment loss on trade and other receivables | 6(c) | (13,812) | 2,520 |
| – Provision for write-down of inventories | 6(c) | 11,676 | 7,293 |
| – Equity settled share-based payment expenses | 30(a) | 7,041 | 4,221 |
| Operating profit before changes in working capital | | 808,408 | 1,099,371 |
| Decrease/(increase) in pledged deposits | | 4,803 | (2,608) |
| Decrease/(increase) in inventories | | 102,865 | (68,354) |
| Decrease in trade and bills receivables | | 109,495 | 78,881 |
| Decrease in prepayments, deposits and other receivables | | 16,438 | 30,028 |
| Decrease in trade payables | | (21,518) | (96,662) |
| Decrease in deferred income | | (1,099) | (793) |
| Decrease in other payables and accruals | | (23,529) | (18,898) |
| Increase in defined benefit retirement plans obligation | | 1,008 | 1,539 |
| Cash generated from operations | | 996,871 | 1,022,504 |

## 21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

### (d) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | Bank loans HK$'000 (Note 22) | Lease liabilities HK$'000 (Note 23) | Total HK$'000 |
|---|---|---|---|
| **At 1 January 2019** | 1,794,297 | 158,836 | 1,953,133 |
| **Changes from financing cash flows:** | | | |
| Proceeds from bank loans | 1,637,663 | – | 1,637,663 |
| Repayment of bank loans | (2,453,258) | – | (2,453,258) |
| Capital element of lease rentals paid | – | (65,362) | (65,362) |
| Interest element of lease rentals paid | – | (5,384) | (5,384) |
| Interest paid | (73,562) | – | (73,562) |
| Total changes from financing cash flows | (889,157) | (70,746) | (959,903) |
| **Exchange adjustments** | 2,212 | (4,332) | (2,120) |
| **Other changes:** | | | |
| Increase in lease liabilities from entering into new leases during the year | – | 15,713 | 15,713 |
| Interest expenses (Note 6(a)) | 66,433 | 5,384 | 71,817 |
| Capitalized borrowing costs (Note 6(a)) | 3,620 | – | 3,620 |
| Total other changes | 70,053 | 21,097 | 91,150 |

## 21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

### (d) Reconciliation of liabilities arising from financing activities (Continued)

| | Bank loans HK$'000 (Note 22) | Lease liabilities HK$'000 (Note 23) | Total HK$'000 |
|---|---|---|---|
| **At 31 December 2019 and 1 January 2020** | 977,405 | 104,855 | 1,082,260 |
| **Changes from financing cash flows:** | | | |
| Proceeds from bank loans | 736,271 | – | 736,271 |
| Repayment of bank loans | (900,996) | – | (900,996) |
| Capital element of lease rentals paid | – | (65,999) | (65,999) |
| Interest element of lease rentals paid | – | (2,927) | (2,927) |
| Interest paid | (34,196) | – | (34,196) |
| Total changes from financing cash flows | (198,921) | (68,926) | (267,847) |
| **Exchange adjustments** | 4,855 | (1,232) | 3,623 |
| **Other changes:** | | | |
| Interest expenses (Note 6(a)) | 32,792 | 2,927 | 35,719 |
| **At 31 December 2020** | 816,131 | 37,624 | 853,755 |

## 21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

### (e) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Within operating cash flows | 8,191 | 9,222 |
| Within investing cash flows | 53,848 | 4,168 |
| Within financing cash flows | 68,926 | 70,746 |
| | 130,965 | 84,136 |

These amounts relate to the following:

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Lease rentals paid | 77,117 | 79,968 |
| Purchase of leasehold land | 53,848 | 4,168 |
| | 130,965 | 84,136 |

## 22 BANK LOANS

The maturity profile for the interest-bearing bank loans of the Group at the end of each reporting period is as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Short-term bank loans | 276,366 | 450,919 |
| Current portion of long-term bank loans | 184,500 | 163,479 |
| Within 1 year or on demand | 460,866 | 614,398 |
| After 1 year but within 2 years | 171,954 | 292,218 |
| After 2 years but within 5 years | 183,311 | 70,789 |
| | 355,265 | 363,007 |
| | 816,131 | 977,405 |

At the end of each reporting period, the bank loans were analyzed as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Bank loans | | |
| – Secured (Note i) | 12,337 | 20,231 |
| – Unsecured | 803,794 | 957,174 |
| | 816,131 | 977,405 |

## 22 BANK LOANS (Continued)

Notes:

(i) The bank loans were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Freehold land (Note 12(ii)) | 10,691 | 9,783 |
| Machinery (Note 12(ii)) | 5,045 | 5,800 |
| | 15,736 | 15,583 |

(ii) Fulfilment of loan covenants

Certain banking facilities of the Group are subject to the fulfilment of financial covenants relating to certain of the financial ratios of the Group or the subsidiary of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 34(b). As at 31 December 2020 and 2019, none of the covenants relating to drawn down facilities was breached.

## 23 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Within 1 year | 24,611 | 70,033 |
| After 1 year but within 2 years | 8,141 | 23,162 |
| After 2 years but within 5 years | 4,503 | 11,166 |
| After 5 years | 369 | 494 |
| | 13,013 | 34,822 |
| | 37,624 | 104,855 |

## 24 TRADE PAYABLES

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Trade payables | 280,143 | 284,215 |

All of the trade payables are expected to be settled within one year or repayable on demand.

As of the end of the reporting period, the aging analysis of trade payables, based on the invoice date, is as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Within 1 month | 158,914 | 217,106 |
| 1 to 3 months | 109,092 | 60,613 |
| Over 3 months | 12,137 | 6,496 |
| | 280,143 | 284,215 |

## 25 OTHER PAYABLES AND ACCRUALS

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Other payables (Note i) | 167,560 | 216,268 |
| Accrued expenses | 28,597 | 42,712 |
| | 196,157 | 258,980 |

All of the other payables are expected to be settled within one year or repayable on demand.

Note:

(i) An analysis of the other payables of the Group is as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Deferred consideration payable (Note 20(i)) | 23,581 | 56,623 |
| Salaries, wages, bonus and benefits payable | 75,171 | 77,626 |
| Payables for purchase of property, plant and equipment | 17,735 | 16,596 |
| Contract liabilities | 6,314 | 6,663 |
| Other tax payable | 8,629 | 11,070 |
| Others | 36,130 | 47,690 |
| | 167,560 | 216,268 |

Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers. All contract liabilities brought-forward from the previous financial year end were fully recognized as revenue in the next financial year.

## 26 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 28 June 2019, 30,230,000 share options were granted to directors, senior management and employees of the Group in three tranches under the Company's employee share option scheme. These share options will vest on 28 June 2022, 28 June 2023 and 28 June 2024, and then be exercisable until 24 December 2022, 24 December 2023 and 24 December 2024 respectively in tranches. Each option gives the holder the right to subscribe for one ordinary share in the Company. No Share options were granted during the year ended 31 December 2020.

### (a) The terms and conditions of the grants are as follows:

| | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| **Options granted to directors:** | | | |
| – on 28 June 2019 | 2,000,400 | On 28 June 2022 | 3.5 years |
| – on 28 June 2019 | 1,999,800 | On 28 June 2023 | 4.5 years |
| – on 28 June 2019 | 1,999,800 | On 28 June 2024 | 5.5 years |
| **Options granted to senior management:** | | | |
| – on 28 June 2019 | 1,558,646 | On 28 June 2022 | 3.5 years |
| – on 28 June 2019 | 1,558,177 | On 28 June 2023 | 4.5 years |
| – on 28 June 2019 | 1,558,177 | On 28 June 2024 | 5.5 years |
| **Options granted to employees:** | | | |
| – on 28 June 2019 | 6,519,638 | On 28 June 2022 | 3.5 years |
| – on 28 June 2019 | 6,517,681 | On 28 June 2023 | 4.5 years |
| – on 28 June 2019 | 6,517,681 | On 28 June 2024 | 5.5 years |
| Total share options granted | 30,230,000 | | |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 26 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

### (b) The number and weighted average exercise prices of share options are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| Outstanding at the beginning of the year | HK$2.40 | 28,105,000 | – | – |
| Granted during the year | – | – | HK$2.40 | 30,230,000 |
| Forfeited during the year | HK$2.40 | (1,470,000) | HK$2.40 | (2,125,000) |
| Outstanding at the end of the year | HK$2.40 | 26,635,000 | HK$2.40 | 28,105,000 |
| Exercisable at the end of the year | HK$2.40 | – | HK$2.40 | – |

The weighted average share price at the date of exercise for shares options exercised during the year was not applicable (2019: not applicable).

The options outstanding at 31 December 2020 had an exercise price of HK$2.40 (2019: HK$2.40) and a weighted average remaining contractual life of 2.8 years (2019: 4 years).

## 26 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

### (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. 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.

| | Share options granted on 28 June 2019 (Tranche A) | Share options granted on 28 June 2019 (Tranche B) | Share options granted on 28 June 2019 (Tranche C) |
|---|---|---|---|
| Fair value at grant date | HK$1.01 per share option | HK$1.11 per share option | HK$1.12 per share option |
| Grant date share price | HK$3.00 per share | HK$3.00 per share | HK$3.00 per share |
| Exercise price | HK$2.40 per share | HK$2.40 per share | HK$2.40 per share |
| Expected volatility | 39.0% | 42.0% | 40.0% |
| Contractual option life | 3.5 years | 4.5 years | 5.5 years |
| Dividend yield | 2.30% | 2.30% | 2.30% |
| Risk-free interest rate | 1.49% | 1.45% | 1.45% |
| Exercise multiple | | | |
| – Directors | 2.80 | 2.80 | 2.80 |
| – Management | 2.80 | 2.80 | 2.80 |
| – Employees | 2.20 | 2.20 | 2.20 |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. 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 services received. There were no market conditions associated with the share option grants.

## 27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the consolidated statement of financial position represents:

| | At 31 December | |
|---|---|---|
| | 2020<br>HK$'000 | 2019<br>HK$'000 |
| At the beginnings of the year | 73,230 | 33,089 |
| Provision for the year: | | |
| – PRC Corporate Income Tax | 11,522 | 40,030 |
| – Hong Kong Profits Tax | 21,880 | 39,204 |
| – Income tax for tax jurisdictions outside PRC and Hong Kong | 37,014 | 9,761 |
| – Effect of withholding tax on dividends | 2,202 | – |
| Tax paid: | | |
| – PRC Corporate income Tax | (24,997) | (41,130) |
| – Hong Kong Profits Tax | (77,658) | (511) |
| – Income tax for tax jurisdictions outside PRC and Hong Kong | (5,564) | (6,763) |
| | 37,629 | 73,680 |
| Exchange adjustment | 2,756 | (450) |
| At the end of the year | 40,385 | 73,230 |
| Represented by: | | |
| Taxation recoverable | (5,206) | (768) |
| Taxation payable | 45,591 | 73,998 |
| | 40,385 | 73,230 |

## 27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

### (b) Deferred tax assets and liabilities recognized:

(i) The components of deferred tax assets recognized in the consolidated statement of financial position and the movements during the year are as follows:

| | Inventory provision HK$'000 | Unrealized profits on inventories HK$'000 | Investment incentive HK$'000 | Depreciation of property, plant and equipment HK$'000 | Pension provision HK$'000 | Accrued expenses HK$'000 | Other temporary differences HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 7,180 | 13,016 | 26,367 | 335 | 5,281 | 8,315 | 15,901 | 76,395 |
| Recognized in profit or loss | 323 | 1,983 | (25,616) | 34 | 649 | (627) | 1,579 | (21,675) |
| Recognized in other comprehensive income | – | – | – | – | 1,853 | – | 101 | 1,954 |
| Exchange adjustment | (170) | – | (548) | – | (149) | (181) | (257) | (1,305) |
| At 31 December 2019 and 1 January 2020 | 7,333 | 14,999 | 203 | 369 | 7,634 | 7,507 | 17,324 | 55,369 |
| Recognized in profit or loss | 112 | (5,933) | (207) | 14 | (491) | 316 | (4,958) | (11,147) |
| Recognized in other comprehensive income | – | – | – | – | 1,216 | – | – | 1,216 |
| Exchange adjustment | 445 | – | 4 | – | 761 | 493 | 975 | 2,678 |
| At 31 December 2020 | 7,890 | 9,066 | – | 383 | 9,120 | 8,316 | 13,341 | 48,116 |

## 27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

### (b) Deferred tax assets and liabilities recognized: (Continued)

(ii) The components of deferred tax liabilities recognized in the consolidated statement of financial position and the movements during the year are as follows:

| | Capitalized deferred expenses HK$'000 | Fair value adjustment arising from business combination HK$'000 | Capitalized borrowing costs HK$'000 | Undistributed profits HK$'000 | Other temporary differences HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 37,725 | 58,138 | 9,941 | – | 44,956 | 150,760 |
| Recognized in profit or loss | 628 | (5,091) | 40 | – | (6,757) | (11,180) |
| Exchange adjustment | (835) | (1,435) | (218) | – | (1,060) | (3,548) |
| At 31 December 2019 and 1 January 2020 | **37,518** | **51,612** | **9,763** | **–** | **37,139** | **136,032** |
| Recognized in profit or loss | **(537)** | **(4,823)** | **(573)** | **11,737** | **4,150** | **9,954** |
| Effect of withholding tax on dividends | **–** | **–** | **–** | **(2,202)** | **–** | **(2,202)** |
| Exchange adjustment | **2,382** | **3,936** | **596** | **–** | **3,687** | **10,601** |
| At 31 December 2020 | **39,363** | **50,725** | **9,786** | **9,535** | **44,976** | **154,385** |

(iii) Reconciliation to the consolidated statement of financial position:

| | At 31 December 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Net deferred tax assets recognized in the consolidated statement of financial position | **20,268** | 32,316 |
| Net deferred tax liabilities recognized in the consolidated statement of financial position | **(126,537)** | (112,979) |
| | **(106,269)** | (80,663) |

## 27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

### (c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(s), the Group did not recognize deferred tax assets of HK$28,299,000 (2019: HK$21,542,000) in respect of cumulative losses of the Group's subsidiaries in Germany, Czech and Luxembourg of HK$92,176,000 (2019: HK$67,879,000) as at 31 December 2020, as it was not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entities. The tax losses arising from operations in Germany, Czech and Luxembourg do not expire under current tax legislation.

### (d) Deferred tax liabilities not recognized

As at 31 December 2020, deferred tax liabilities of HK$11,737,000 (2019: HK$nil) were recognized in respect of withholding tax that would be payable on the distribution of the retained profits of the Group's subsidiaries in the foreseeable future. Deferred tax liabilities of HK$203,662,000 (2019: HK$200,687,000) have not been recognized in respect of the dividend withholding tax on temporary differences relating to the undistributed profits of the subsidiaries of the Group amounted to HK$2,930,332,000 (2019: HK$2,854,869,000), as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that the undistributed profits earned by the Group's subsidiaries will not be distributed in the foreseeable future.

## 28 DEFERRED INCOME

As at 31 December 2020, deferred income represented unamortized conditional government grants amounting to HK$59,391,000 (2019: HK$56,999,000) for acquisition of property, plant and equipment of the Group's PRC subsidiaries.

Deferred income is amortized over the useful life of the related property, plant and equipment upon the completion of the construction.

## 29 EMPLOYEE RETIREMENT BENEFITS

### (a) Defined benefit retirement plans

The Group has two defined benefit retirement plans ("Plans") for its employees in the German subsidiaries that were acquired by the Group on 31 March 2013.

The Group provides pension benefits for those employees who retire in the form of life-long annuities. These are in-line with usual German market practice and do not constitute any unusual or company-specific risks or require any specific regulatory framework to be taken into account. The costs of the Plans are solely funded by the Group.

The Group also has a defined benefit retirement obligation for its employees in the Cengiz Makina that were acquired by the Group on 26 August 2014. Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). The liability is not funded, as there is no funding request. The obligation has been calculated by estimating the present value of the future probable obligation of Cengiz Makina arising from the employment termination.

The actuarial valuations of the defined benefit retirement obligation were performed in accordance with IAS 19 "Employee Benefits" as at 31 December 2020 and 2019 by actuaries using the projected unit credit method.

#### *(i) The amounts recognized in the consolidated statement of financial position are as follows:*

| | At 31 December | |
|---|---:|---:|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Present value of defined benefit retirement plans obligation | **77,824** | 67,854 |

## 29 EMPLOYEE RETIREMENT BENEFITS (Continued)

### (a) Defined benefit retirement plans (Continued)

#### *(ii) Movements in the present value of the defined benefit retirement plans obligation*

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| At the beginning of the year | **67,854** | 60,977 |
| Remeasurements effect recognized in other comprehensive income | | |
| Actuarial loss | **7,125** | 9,240 |
| Exchange adjustment | **1,837** | (3,902) |
| | **76,816** | 66,315 |
| Benefits paid by the plans | **(3,558)** | (3,668) |
| Current service cost | **2,135** | 2,423 |
| Interest cost | **2,431** | 2,784 |
| At the end of the year | **77,824** | 67,854 |

## 29 EMPLOYEE RETIREMENT BENEFITS (Continued)

### (a) Defined benefit retirement plans (Continued)

*(iii) Amounts recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:*

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Current service cost | **2,135** | 2,423 |
| Interest on defined benefit retirement plans obligation | **2,431** | 2,784 |
| Total amounts recognized in profit or loss (Note 6(b)) | **4,566** | 5,207 |
| Actuarial loss | **7,125** | 9,240 |
| Exchange adjustment | **1,837** | (3,902) |
| Total amounts recognized in other comprehensive income | **8,962** | 5,338 |
| Total defined benefit costs | **13,528** | 10,545 |

The weighted average duration of the defined benefit retirement plans obligation of the two Plans in German subsidiaries is 15 (2019: 15) years as at 31 December 2020.

The weighted average duration of the defined benefit retirement plans obligation of the Plan in Cengiz Makina is 24 (2019: 25) years as at 31 December 2020.

## 29 EMPLOYEE RETIREMENT BENEFITS (Continued)

### (a) Defined benefit retirement plans (Continued)

*(iv) The current service cost and the interest on defined retirement obligation are recognized in the following line items in the consolidated statement of profit or loss:*

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>HK$'000 | 2019<br>HK$'000 |
| Cost of sales | 1,659 | 1,968 |
| Administrative and other operating expenses | 2,907 | 3,239 |
| | 4,566 | 5,207 |

*(v) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:*

| | 2020 | 2019 |
|---|---|---|
| Discount rate | 0.6% – 4.1% | 1.2% – 4.3% |
| Pension inflation | 1.5% – 10.0% | 1.5% – 10.0% |

The below analysis shows how the defined benefit obligation as at 31 December 2020 and 2019 would have increased/(decreased) as a result of 0.5% change in the significant actuarial assumptions:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Increase in 0.5%<br>HK$'000 | Decrease in 0.5%<br>HK$'000 | Increase in 0.5%<br>HK$'000 | Decrease in 0.5%<br>HK$'000 |
| Discount rate | (5,176) | 5,797 | (4,465) | 4,961 |
| Pension inflation | 4,861 | (4,479) | 2,524 | (2,395) |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## 29 EMPLOYEE RETIREMENT BENEFITS (Continued)

### (b) Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participate in defined contribution retirement plans (the "Schemes") organized by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2020 and 2019. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

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 and not previously covered by the defined benefit retirement plan. 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 contribution to the plan vest immediately.

The Group's subsidiaries in jurisdictions other than the PRC, Hong Kong, Germany and Turkey, make contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdiction in which such subsidiary located.

## 30 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movement 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:

| The Company | Note | Share capital HK$'000 | Reserves: Share premium HK$'000 | Reserves: Capital reserve HK$'000 | Reserves: Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | | 128 | 543,673 | 1,110 | 31,875 | 576,786 |
| Changes in equity for 2019: | | | | | | |
| Profit and total comprehensive income for the year | | – | – | – | 350,978 | 350,978 |
| Capitalization issue | 30(c) | 149,872 | (149,872) | – | – | – |
| Issue of ordinary shares by initial public offering, net of issuance costs | 30(c) | 38,330 | 1,036,477 | – | – | 1,074,807 |
| Equity settled share-based transactions | 26 | – | – | 4,221 | – | 4,221 |
| Appropriation of dividends | 30(b) | – | – | – | (177,732) | (177,732) |
| **Balance at 31 December 2019 and 1 January 2020** | | **188,330** | **1,430,278** | **5,331** | **205,121** | **1,829,060** |
| Changes in equity for 2020: | | | | | | |
| Profit and total comprehensive income for the year | | – | – | – | **130,520** | **130,520** |
| Equity settled share-based transactions | 26 | – | – | **7,041** | – | **7,041** |
| Appropriation of dividends | 30(b) | – | – | – | **(105,464)** | **(105,464)** |
| **Balance at 31 December 2020** | 35 | **188,330** | **1,430,278** | **12,372** | **230,177** | **1,861,157** |

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (b) Dividends

*(i) Dividends payable to equity shareholders of the Company attributable to the year:*

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Interim dividend declared and paid of HK$0.024 per share (2019: HK$0.04 per share) | **45,199** | 75,332 |
| Final dividend proposed after the end of the reporting period of HK$0.018 per share (2019: HK$0.032 per share) | **33,899** | 60,265 |
| | **79,098** | 135,597 |

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

*(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:*

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.032 per share (2019: HK$80.1 per share) | **60,265** | 102,400 |

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) Share capital

#### *(i) Issued share capital*

| | Note | 2020 No. of shares | 2020 HK$ | 2019 No. of shares | 2019 HK$ |
|---|---|---|---|---|---|
| **Authorized:** | | | | | |
| Ordinary shares of HK$0.1 each | (i) | 13,500,000,000 | 1,350,000,000 | 13,500,000,000 | 1,350,000,000 |
| **Ordinary shares, issued and fully paid:** | | | | | |
| At 1 January | | 1,883,295,000 | 188,329,500 | 1,277,912 | 127,791 |
| Capitalization issue | (ii) | – | – | 1,498,722,088 | 149,872,209 |
| Issues of ordinary shares by initial public offering | (iii) | – | – | 383,295,000 | 38,329,500 |
| At 31 December | | 1,883,295,000 | 188,329,500 | 1,883,295,000 | 188,329,500 |

Notes:

(i) The Company was incorporated in the Cayman Islands on 8 January 2008 with an authorized share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. 100 shares of HK$0.1 each were issued and allotted to Impro Development Limited on 8 January 2008.

Pursuant to a written resolution of the board of directors of the Company passed on 21 January 2008, the authorized share capital of the Company was increased from HK$380,000 to HK$760,000 by the creation of an additional 3,800,000 Series A Preference Shares of HK$0.1 each.

Pursuant to a written resolution of the board of directors of the Company passed on 17 June 2011, the authorized share capital of the Company was increased from HK$760,000 to HK$1,350,000,000 by the creation of an additional 13,492,400,000 ordinary shares of HK$0.1 each.

Pursuant to a written resolution of the board of directors of the Company passed on 17 June 2011, the authorized 3,800,000 Series A Preference Shares of HK$0.1 each were reclassified to 3,800,000 ordinary shares of HK$0.1 each.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) Share capital (Continued)

#### *(ii) Capitalization issue*

Pursuant to the shareholder's resolution dated 14 June 2019, the directors of the Company are authorized to allot and issue 1,498,722,088 shares at a par value of HK$0.10 each to the then existing shareholders. This resolution was conditional upon the share premium account being credited as a result of the Company's initial public offering and pursuant to this resolution, a sum of HK$149,872,208.8 standing to the credit of the share premium account as at 28 June 2019 was subsequently applied in paying up this capitalization issue in full.

#### *(iii) Issue of ordinary shares by initial public offering*

On 28 June 2019, the Company issued 333,300,000 shares with a par value of HK$0.10, at an offer price of HK$3.00 per share by way of public offering to Hong Kong and overseas investors. Net proceeds from these issues amounted to HK$929,321,000 (after offsetting costs directly attributable to the issue of shares of HK$70,579,000), out of which HK$33,330,000 and HK$895,991,000 were recorded in share capital and share premium accounts, respectively.

On 19 July 2019, pursuant to the full exercise of the over-allotment option by the joint global coordinators of the initial public offering, the Company allotted and issued an additional 49,995,000 shares with a par value of HK$0.10 at the offer price of HK$3.00 per share. The additional net proceeds from the exercise of over-allotment option amounted to HK$145,486,000 (after offsetting costs directly attributable to the issue of shares of HK$4,499,000), out of which HK$4,999,500 and HK$140,486,500 were recorded in share capital and share premium accounts, respectively.

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (d) Nature and purpose of reserves

#### *(i) Share premium*

The share premium represents the difference between consideration received for ordinary shares subscription net of any transaction costs directly attributable to the subscription and the par value of the ordinary shares subscribed.

#### *(ii) Capital reserve*

The capital reserve represents (i) the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of issued share capital of the Company pursuant to the reorganization prior to 2011; (ii) the equity component of the financial instruments issued; and (iii) the portion of the grant date fair value of unexercised share options granted that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(r)(iii).

#### *(iii) Statutory surplus reserve*

According to laws applicable to the foreign investment enterprises in the PRC and the Articles of Association of certain subsidiaries of the Company in the PRC, the PRC entities are required to appropriate part of their net profits as determined in accordance with the PRC GAAP to various reserves. These include general reserve and statutory surplus reserve.

For general reserve, appropriation to general reserve is at the discretion of the directors of the relevant PRC entities. The reserve can only be used for specific purposes and is not distributable as cash dividends.

For statutory surplus reserve, 10% of the net profit, as determined in accordance with the PRC GAAP, of the relevant PRC entities is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant PRC companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital. Any amount of funds outside of the 50% reserve balance can be distributed as by the relevant PRC entities, as advances or cash dividends, subject however, to complying with applicable requirements. Such dividend or loans could take a considerable amount of time to implement and to be processed by certain governmental agencies.

The Group's subsidiary Cengiz Makina established and operated in the Turkey are required to appropriate their statutory profits (after offsetting prior year losses) to statutory surplus reserves. In accordance with the Turkish Commercial Code ("TCC"), the statutory reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses.

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (d) Nature and purpose of reserves (Continued)

#### *(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than HK$. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(u).

#### *(v) Fair value reserve (non-recycling)*

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(f)).

### (e) Distributability of reserves

As at 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$1,661,565,000 (2019: HK$1,636,509,000).

### (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 maintaining a balance between the higher shareholders 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 net debt to capital ratio. For this purpose, the Group defines net debt as total current and non-current bank loans and lease liabilities less cash and cash equivalents and pledged deposits. The Group defines capital as including all components of equity.

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (f) Capital management (Continued)

The Group's net debt to capital ratio at 31 December 2020 and 2019 was as follows:

| | Note | 31 December 2020 HK$'000 | 31 December 2019 HK$'000 |
|---|---|---|---|
| Current liabilities: | | | |
| Bank loans | 22 | **460,866** | 614,398 |
| Lease liabilities | 23 | **24,611** | 70,033 |
| | | **485,477** | 684,431 |
| Non-current liabilities: | | | |
| Bank loans | 22 | **355,265** | 363,007 |
| Lease liabilities | 23 | **13,013** | 34,822 |
| | | **368,278** | 397,829 |
| Total debt | | **853,755** | 1,082,260 |
| Less: Cash and cash equivalents | 21(a) | **(601,985)** | (568,965) |
| Pledged deposits | 21(b) | **–** | (4,803) |
| **Net debt** | | **251,770** | 508,492 |
| **Total Equity** | | **4,032,897** | 4,026,957 |
| **Net debt to capital ratio** | | **6.2%** | 12.6% |

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in Note 22, neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

## 31 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Contracted for | 583,117 | 225,351 |
| Represented by: | | |
| Construction of plants | 305,789 | 65,908 |
| Acquisition of machinery | 277,328 | 159,443 |
| | 583,117 | 225,351 |

## 32 CONTINGENT LIABILITIES

(i) On 24 September 2011, a fire accident was incurred on the plant of Shenhai Industrial. Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the "Insurer"). On 12 May 2015, the Supreme People's Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People's Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People's Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.

(ii) In addition to the litigations related to the Dissenting Payments as disclosed in Note 20, Shenhai Industrial received arbitration notice that on 8 October 2018 it was sued by the law firm in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial's fire accident insurance as mentioned in Note 32(i) above. During the year ended 31 December 2020, the law firm has returned the Dissenting Payments of RMB8,000,000 to the Group. The law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB21,000,000, and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. As of the date of this report, the arbitration is on hearing. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

## 33 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Short-term employee benefits | **25,566** | 26,589 |
| Share-based payments | **2,820** | 1,456 |
| Contributions to defined contribution retirement plans | **1,276** | 1,357 |
| | **29,662** | 29,402 |

Total remuneration is included in "staff costs" (see Note 6(b)).

### (b) Applicability of the Listing Rules relating to connected transactions

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.

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 financial risk management policies and practices used by the Group to manage these risks are described below.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

### (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 receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

*Trade receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 8% (2019: 7%) and 35% (2019: 33%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past 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 generally due within 15 to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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 experience 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.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

| | At 31 December 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount HK$'000 | Loss allowance HK$'000 |
| Current (not past due) | 0.4% | 533,427 | 1,967 |
| Less than 1 month past due | 2.4% | 71,372 | 1,688 |
| 1 to 3 months past due | 6.5% | 23,140 | 1,510 |
| More than 3 months but less than 12 months past due | 14.3% | 8,577 | 1,227 |
| More than 12 months past due | 72.1% | 7,832 | 5,649 |
| | | 644,348 | 12,041 |

| | At 31 December 2019 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount HK$'000 | Loss allowance HK$'000 |
| Current (not past due) | 0.3% | 470,388 | 1,640 |
| Less than 1 month past due | 2.1% | 198,534 | 4,158 |
| 1 to 3 months past due | 5.7% | 48,315 | 2,747 |
| More than 3 months but less than 12 months past due | 12.2% | 23,943 | 2,912 |
| More than 12 months past due | 71.7% | 25,364 | 18,191 |
| | | 766,544 | 29,648 |

Expected loss rates are based on actual loss experience over the past 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.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (a) Credit risk (Continued)

Movement in the loss allowance in respect of trade receivables during the year is as follows:

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| Balance at 1 January | **29,648** | 22,548 |
| Impairment loss (reversed)/recognized during the year | **(3,384)** | 9,202 |
| Amounts written off during the year | **(15,237)** | (1,759) |
| Exchange adjustment | **1,014** | (343) |
| Balance at 31 December | **12,041** | 29,648 |

The following significant changes in the gross carrying amounts of trade receivables contributed to the decrease in the loss allowance:

– origination of new trade receivables net of those settled resulted in an increase of HK$327,000 (2019: an decrease of HK$844,000);

– change in past due trade receivables resulted in a decrease in loss allowance of HK$3,711,000 (2019: an increase of HK$10,046,000); and

– a write-off of trade receivables with a gross carrying amount of HK$15,237,000 (2019: HK$1,759,000).

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with leading covenants to ensure that it maintains sufficient reserves of cash 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 each 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 reporting date) and the earliest date the Group can be required to pay:

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (b) Liquidity risk (Continued)

| | At 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount at 31 December 2020 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank loans | 473,278 | 180,369 | 185,220 | – | 838,867 | 816,131 |
| Trade payables | 280,143 | – | – | – | 280,143 | 280,143 |
| Other payables and accruals | 196,157 | – | – | – | 196,157 | 196,157 |
| Lease liabilities | 25,236 | 8,577 | 5,130 | 428 | 39,371 | 37,624 |
| | 974,814 | 188,946 | 190,350 | 428 | 1,354,538 | 1,330,055 |

| | At 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount at 31 December 2019 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank loans | 644,002 | 301,900 | 79,758 | – | 1,025,660 | 977,405 |
| Trade payables | 284,215 | – | – | – | 284,215 | 284,215 |
| Other payables and accruals | 258,980 | – | – | – | 258,980 | 258,980 |
| Lease liabilities | 72,323 | 23,493 | 13,052 | 579 | 109,447 | 104,855 |
| | 1,259,520 | 325,393 | 92,810 | 579 | 1,678,302 | 1,625,455 |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (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 short-term and long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. For this purpose, the Group defines "total borrowings" as being interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below:

#### *(i) Interest rate risk profile*

The following, as reported to the management of the Group, details the interest rate risk profile of the Group's total borrowings (as defined above) as at the end of each reporting period:

| | At 31 December | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Effective Interest rate % | Amount HK$'000 | Effective Interest rate % | Amount HK$'000 |
| **Fixed rate borrowings:** | | | | |
| Bank loans | 2.86% | 128,760 | 4.26% | 220,122 |
| Lease liabilities | 4.16% | 37,624 | 4.04% | 104,855 |
| | | 166,384 | | 324,977 |
| **Variable rate borrowings:** | | | | |
| Bank loans | 2.06% | 687,371 | 4.30% | 757,283 |
| Total borrowings | | 853,755 | | 1,082,260 |
| Fixed rate borrowings as a percentage of total borrowings | | 19.5% | | 30.0% |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (c) Interest rate risk (Continued)

#### *(ii) Sensitivity analysis*

At 31 December 2020, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have increased or decreased the Group's loss after tax and decreased or increased retained profits by approximately HK$5,740,000 (2019: profit after tax and retained profits would have decreased or increased by HK$6,323,000) in response to the general increase or decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to floating rate non-derivative instruments held by the Group, which expose the Group to cash flow interest rate risk. The impact on the Group's loss after tax (and retained profits) is estimated as an annualized impact on interest expense of such a change in interest rates. Fixed rate financial instruments are excluded for the above analysis. The analysis is performed on the same basis as 2019.

### (d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, cash and bank loans 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 US$, EUR, RMB and TL.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (d) Currency risk (Continued)

#### *(i) Exposure to currency risk*

The following table details the Group's exposure as at 31 December 2020 and 2019 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in HK$ translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than HK$ into the Group's presentation currency are excluded.

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| *US$* | | |
| Trade and bills receivables | **253,229** | 411,440 |
| Prepayments, deposits and other receivables | **1,924** | 18,581 |
| Cash and cash equivalents | **102,343** | 334,397 |
| Trade payables | **(35,231)** | (24,469) |
| Other payables and accruals | **(772)** | (1,117) |
| Bank loans | **(565,365)** | (219,589) |
| Net exposure arising from recognized assets and liabilities | **(243,872)** | 519,243 |

| | At 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| *EUR* | | |
| Trade and bills receivables | **54,050** | 70,919 |
| Prepayments, deposits and other receivables | **7,259** | 178 |
| Cash and cash equivalents | **40,469** | 23,662 |
| Trade payables | **(13,758)** | (4,276) |
| Other payables and accruals | **–** | (393) |
| Bank loans | **(66,675)** | (64,781) |
| Net exposure arising from recognized assets and liabilities | **21,345** | 25,309 |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (d) Currency risk (Continued)

#### (i) *Exposure to currency risk* (Continued)

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| *RMB* | | |
| Trade and bills receivables | 7,997 | 2,018 |
| Prepayments, deposits and other receivables | 2,243 | 90,776 |
| Cash and cash equivalents | 47,135 | 468 |
| Trade payables | (373,357) | (320,915) |
| Net exposure arising from recognized assets and liabilities | (315,982) | (227,653) |

| | At 31 December | |
|---|---|---|
| | 2020 | 2019 |
| | HK$'000 | HK$'000 |
| *TL* | | |
| Trade and bills receivables | 15,650 | 9,793 |
| Prepayments, deposits and other receivables | 2,717 | 12,235 |
| Cash and cash equivalents | 9,823 | 13,426 |
| Trade payables | (21,980) | (19,405) |
| Other payables and accruals | (10,970) | (7,794) |
| Net exposure arising from recognized assets and liabilities | (4,760) | 8,255 |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (d) Currency risk (Continued)

#### *(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates % | (Increase)/ decrease in loss after tax and (decrease)/ increase in retained profits HK$'000 | Increase/ (decrease) in foreign exchange rates % | Increase/ (decrease) in profit after tax and retained profits HK$'000 |
| US$ | 5% | (9,320) | 5% | 21,917 |
| | (5%) | 9,320 | (5%) | (21,917) |
| EUR | 5% | 819 | 5% | 1,068 |
| | (5%) | (819) | (5%) | (1,068) |
| RMB | 5% | (12,076) | 5% | (9,609) |
| | (5%) | 12,076 | (5%) | 9,609 |
| TL | 5% | (186) | 5% | 322 |
| | (5%) | 186 | (5%) | (322) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of each reporting period for presentation purpose.

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 as at 31 December 2020 and 2019, 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 the Group's subsidiaries with functional currency other than HK$ into the Group's presentation currency. The analysis is performed on the same basis as 2019.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (e) Fair value measurement

*Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 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.

Analysis on fair value measurement of derivative financial instruments are as follows:

| | Fair value at 31 December 2020 HK$'000 | Fair value measurement at 31 December 2020 categorized into Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Recurring fair value measurement | | | | |
| Other financial asset: | | | | |
| Unlisted equity securities | 1,673 | – | – | 1,673 |
| Trade and bills receivables: | | | | |
| Bills receivable | 115,799 | – | 115,799 | – |

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (e) Fair value measurement (Continued)

*Fair value hierarchy* (Continued)

| | Fair value at 31 December 2019 HK$'000 | Fair value measurement at 31 December 2019 categorized into Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Recurring fair value measurement** | | | | |
| **Other financial asset:** | | | | |
| Unlisted equity securities | 1,572 | – | – | 1,572 |
| **Trade and bills receivables:** | | | | |
| Bills receivable | 79,091 | – | 79,091 | – |

During the years ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of unlisted equity instruments is determined using the price book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. Unrealized loss in respect of unlisted equity securities of HK$nil (2019: HK$672,000) were recognized in fair value reserve (non-recycling) in other comprehensive income during 2020. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained profits. Further disclosures in report of this asset is set out in Note 17.

The fair values of the bills receivable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts.

Except for unlisted equity securities and bills receivable, all financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at 31 December 2020 and 2019.

## 35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | | 1,860,962 | 1,829,039 |
| | | 1,860,962 | 1,829,039 |
| **Current assets** | | | |
| Other receivables | | 306 | 15 |
| Cash and cash equivalents | | 170 | 174 |
| | | 476 | 189 |
| **Current liabilities** | | | |
| Other payables | | 281 | 168 |
| | | 281 | 168 |
| Net current assets | | 195 | 21 |
| Total assets less current liabilities | | 1,861,157 | 1,829,060 |
| NET ASSETS | | 1,861,157 | 1,829,060 |
| CAPITAL AND RESERVES | 30 | | |
| Share capital | | 188,330 | 188,330 |
| Reserves | | 1,672,827 | 1,640,730 |
| TOTAL EQUITY | | 1,861,157 | 1,829,060 |

## 36 NON-ADJUSTING POST BALANCE SHEET DATE EVENTS

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in Note 30(b).

(Expressed in Hong Kong dollars unless otherwise indicated)

## 37 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, the directors consider the immediate parent of the Company is Impro Development Limited, a company incorporated in British Virgin Islands. The ultimate controlling party is Mr. Lu Ruibo, Chairman of the Group. Impro Development Limited does not produce financial statements available for public use.

## 38 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. The management has implemented a series of operating cost and capital expenditure control measures in order to lower the breakeven point of operations, and preserve liquidity to weather the current economic crisis. The Group will keep the contingency measures under review as the situation evolves.

As mentioned in Note 14 to the financial statements, the Group performed impairment assessment of CGUs of Shenhai Group and Cengiz Makina at 30 June 2020 and an impairment loss against goodwill and other assets of HK$445,201,000 has been recognized in the consolidated statement of profit or loss for the year ended 31 December 2020.

## 39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to IFRS 3, *Reference to the Conceptual Framework* | 1 January 2022 |
| Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use* | 1 January 2022 |
| Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract* | 1 January 2022 |
| Annual Improvements to IFRSs 2018-2020 Cycle | 1 January 2022 |

The Group 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.

# Financial Summary

| HK$ million | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Consolidated statement of profit or loss** | | | | | |
| **Revenue** | **2,924.6** | 3,640.2 | 3,749.1 | 3,049.1 | 2,547.2 |
| Gross profit | **767.3** | 1,131.5 | 1,207.8 | 977.9 | 769.3 |
| Gross profit margin | **26.2%** | 31.1% | 32.2% | 32.1% | 30.2% |
| Other revenue | **36.6** | 23.4 | 36.8 | 16.9 | 147.6 |
| Other net (loss)/income | **(27.8)** | 5.5 | (19.0) | (32.0) | (34.1) |
| Impairment loss on goodwill and other assets | **(445.2)** | – | (141.2) | – | – |
| Selling and distribution expenses | **(117.0)** | (160.6) | (162.3) | (121.8) | (107.5) |
| Administrative and other operating expenses | **(245.9)** | (303.3) | (347.7) | (284.7) | (287.3) |
| (Loss)/profit from operations | **(32.0)** | 696.5 | 574.4 | 556.3 | 488.0 |
| Operating (loss)/profit margin | **-1.1%** | 19.1% | 15.3% | 18.2% | 19.2% |
| Net finance costs | **(20.8)** | (58.0) | (87.0) | (76.2) | (80.4) |
| Share of profit of a joint venture | **–** | – | – | 1.4 | 3.2 |
| (Loss)/profit before taxation | **(52.8)** | 638.5 | 487.4 | 481.5 | 410.8 |
| Income tax | **(91.5)** | (99.5) | (75.9) | (79.8) | (71.4) |
| Adjusted effective tax rate[1] | **23.6%** | 15.6% | 12.1% | 16.6% | 17.4% |
| (Loss)/profit for the year | **(144.3)** | 539.0 | 411.5 | 401.7 | 339.4 |
| Net (loss)/profit margin | **-4.9%** | 14.8% | 11.0% | 13.2% | 13.3% |
| Non-controlling interest | **(3.9)** | (0.2) | (1.9) | (0.1) | – |
| (Loss)/profit attributable to shareholders of the Company | **(148.2)** | 538.8 | 409.6 | 401.6 | 339.4 |
| **Adjusted NPAT[2]** | **317.3** | 575.9 | 620.2 | 445.1 | 344.2 |
| **Adjusted profit attributable to shareholders of the Company** | **313.4** | 575.7 | 618.3 | 445.0 | 344.2 |
| EBITDA | **356.7** | 1,082.8 | 952.6 | 919.5 | 847.9 |
| Adjusted EBITDA | **801.9** | 1,101.5 | 1,141.8 | 917.6 | 776.2 |
| Adjusted EBITDA margin | **27.4%** | 30.3% | 30.5% | 30.1% | 30.5% |
| Basic (loss)/earnings per share (HK$) | **(0.079)** | 0.318 | 320.5 | 314.2 | 265.6 |
| Dividend per share (HK$) | **0.042** | 0.072 | 80.1 | 78.6 | 92.3 |

# Financial Summary

| HK$ million | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Consolidated statement of financial position** | | | | | |
| Property, plant and equipment | **3,256.6** | 2,884.6 | 2,761.7 | 2,638.9 | 2,298.6 |
| Goodwill and intangible assets | **60.3** | 516.2 | 542.8 | 729.9 | 680.4 |
| Cash and cash equivalents and pledged deposits | **602.0** | 573.8 | 237.7 | 245.4 | 191.4 |
| Other current and non-current assets | **1,753.4** | 1,989.6 | 2,025.8 | 1,719.9 | 1,437.0 |
| Total assets | **5,672.3** | 5,964.2 | 5,568.0 | 5,334.1 | 4,607.4 |
| Bank loans and lease liabilities | **853.8** | 1,082.2 | 1,930.3 | 1,893.9 | 1,909.2 |
| Other current and non-current liabilities | **785.6** | 855.0 | 953.5 | 911.1 | 718.2 |
| Total liabilities | **1,639.4** | 1,937.2 | 2,883.8 | 2,805.0 | 2,627.4 |
| Net assets | **4,032.9** | 4,027.0 | 2,684.2 | 2,529.1 | 1,980.0 |
| Equity attributable to shareholders of the Company | **4,013.1** | 4,012.0 | 2,669.2 | 2,515.5 | 1,980.0 |
| Non-controlling interest | **19.8** | 15.0 | 15.0 | 13.6 | – |
| Total equity | **4,032.9** | 4,027.0 | 2,684.2 | 2,529.1 | 1,980.0 |
| **Other information/Ratio** | | | | | |
| Inventory turnover days | **137.0** | 118.0 | 105.0 | 108.0 | 115.0 |
| Trade & bills receivables turnover days | **100.0** | 90.0 | 83.0 | 80.0 | 78.0 |
| Trade payables turnover days | **48.0** | 49.0 | 50.0 | 45.0 | 40.0 |
| Capital expenditures (Capex) | **470.5** | 457.9 | 567.7 | 365.5 | 448.1 |
| Free cash inflow from operations (FCF)[3] | **364.0** | 461.8 | 215.9 | 350.9 | 246.9 |
| FCF/Adjusted NPAT | **114.7%** | 80.2% | 34.8% | 78.8% | 71.7% |
| Net gearing ratio | **6.2%** | 12.6% | 63.1% | 65.2% | 86.8% |
| Net debt to adjusted EBITDA[4] | **0.3** | 0.5 | 1.5 | 1.8 | 2.2 |
| Interest coverage (times)[5] | **11.6** | 9.2 | 7.8 | 6.8 | 5.5 |
| Adjusted return on equity[6] | **7.8%** | 17.2% | 23.9% | 19.8% | 17.9% |

Notes:

1. Adjusted effective tax rate is income tax added back the tax impact on impairment loss of goodwill and other assets divided by (loss)/profit before taxation adjusted for impairment loss of goodwill and other assets.

2. Adjusted NPAT represents NPAT added back listing expenses, impairment loss of goodwill and other assets, and amortisation and depreciation related to purchase price allocation, net of tax.

3. FCF represented net cash generated from operating activities less net cash used in investing activities but add back cash used in acquisitions (as shown in the caption of "Payment of deferred consideration payable" and "Decrease/(increase) in restricted deposits").

4. Adjusted EBITDA represents EBITDA added back listing expenses and impairment loss of goodwill and other assets.

5. Interest coverage is profit from operations (adjusted for impairment loss of goodwill and other assets) divided by interest expenses on total interest-bearing bank loans and lease liabilities.

6. Adjusted return on equity is calculated as adjusted profit for the year attributable to shareholders of the Company divided by the average of the beginning and ending total equity attributable to equity shareholders of the Company of the same year.