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IMPRO PRECISION INDUSTRIES LIMITED

鷹普精密工業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1286)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

HIGHLIGHTS

- 2021 record high revenue of HK\$3,777.7 million (2020: HK\$2,924.6 million), an increase of 29.2% as compared to last year
- Stellar revenue growth rate in several Industrial & Others sub end-markets like Hydraulic Equipment, Agricultural Equipment, Construction Equipment & Recreational Boat and Vehicle, each growing 50%+ as compared to last year
- Revenue from Americas region increased by 35.0% and second half of 2021 growth rate even higher at 43.9%
- Gross profit increased to HK\$1,022.4 million (2020: HK\$767.3 million) and gross profit margin was 27.1% (2020: 26.2%)
- Adjusted EBITDA increased to HK\$940.9 million (2020: HK\$801.9 million) and adjusted EBITDA margin was 24.9% (2020: 27.4%)
- Adjusted profit attributable to shareholders of the Company increased to HK\$422.2 million (2020: HK\$313.4 million), an increase of 34.7% as compared to last year
- Net gearing ratio remained healthy at 22.1% (2020: 6.2%)
- The Board declared a second interim dividend of 7.2 HK cents per share. Together with the first interim dividend of 2.9 HK cents per share, total dividend for the year ended 31 December 2021 amounted to 10.1 HK cents per share, increased 140.5% as compared to last year or equivalent to 45% dividend payout ratio based on adjusted profit attributable to shareholders of the Company

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the “**Board**”) of Impro Precision Industries Limited (the “**Company**”, together with its subsidiaries, the “**Group**” or the “**Impro Group**”), I am pleased to report the annual results of the Group for the year ended 31 December 2021. During the year ended 31 December 2021, the revenue of the Group amounted to HK\$3,777.7 million, representing an increase of 29.2%, as compared to HK\$2,924.6 million for the year ended 31 December 2020. During the year ended 31 December 2021, the Company recorded a net profit attributable to the shareholders of the Company of HK\$382.8 million and basic earnings per share of 20.3 HK cents. The adjusted profit attributable to the shareholders of the Company, amounted to HK\$422.2 million, representing an increase of 34.7% as compared to HK\$313.4 million for the year ended 31 December 2020. The construction of 5 plants in San Luis Potosí, Mexico (“**Mexico SLP Campus**”) of the Group has reached the final stage and gradually commenced operations. Taking into account the sound cash flow position and business prospect of the Group, in lieu of a final dividend, the Board resolved to declare a second interim dividend of 2021 of 7.2 HK cents per share. Along with the first interim dividend of 2.9 HK cents per share, dividend for the year amounted to 10.1 HK cents per share, representing an increase of 140.5% as compared to 4.2 HK cents per share last year.

OVERVIEW OF OPERATING RESULTS

In 2021, volatile epidemic situation of the novel coronavirus casted a shadow on global economy recovery and brought certain challenges to the development of the Group and each of the end markets. The global pandemic caused restrictions to air transportation. Restrictions on cross-border travel has not been eased due to the spread of variants of the novel coronavirus in the second half of the year, and hence orders from aerospace customers remained at a low level. In respect of the PRC market, as the power restriction policy was launched in the PRC in September, local governments required enterprises to restrict power consumption, and the manufacturing industry bore the brunt. Prices of raw materials surged continuously as a result of the production halt of the plants of certain raw material suppliers. In addition, as a result of macroeconomic adjustment, the PRC construction equipment and hydraulic equipment markets significantly declined since the third quarter of the year. High ocean freight rates and shortage of containers for ocean freight has exerted pressure on the Group's business development and costs. However, demand of American customers particularly in the industrial and others end markets remained strong, and hence sales momentum of the Group in the second half of the year remained strong. At the same time, incremental international ocean freight rate was implemented in the second half of the year. The expansion of production capacity has relieved the pressure of air freight delivery, and other operation expenses were under strict control. Therefore, adjusted profit attributable to the shareholders of 2021 increased considerably.

Revenue by end-markets

The Group sells its products to worldwide customers in diversified end-markets. During the year, both the automotive and industrial end-markets recorded significant revenue growth, among which:

- The automotive end-market recovered significantly and recorded a revenue of HK\$1,723.3 million, representing a year-on-year increase of 23.6%. Such increase was mainly attributable to the significant increase in demand for components of commercial vehicles in the North America and Europe region. During the year, revenue from commercial vehicle components of the Group increased by 43.6% year-on-year to HK\$755.0 million. During the year, the Group has successfully developed various new energy vehicle parts and surface treatment services for certain manufacturers of new energy vehicles. Revenue in relation to new energy vehicles exceeded HK\$30 million, representing a year-on-year increase of over 3.3 times.
- The industrial and others end-market also performed well. During the year, revenue from this segment reached a historical high level, representing a year-on-year increase of 39.0% to HK\$1,748.6 million. Among which, revenue from hydraulic equipment business increased by 61.4% year-on-year to HK\$399.9 million, mainly due to the Group’s business development with new customers in the hydraulic market in the PRC last year, as well as the increased demand in the U.S. as a result of the increased investment in infrastructure projects launched by the U.S. government, forming a strong demand for products in this end-market. Sales of components of construction equipment and agricultural equipment have been benefited from the North America market and the additional income of new SKUs this year, thus increased significantly by 55.1% and 57.3% to HK\$276.0 million and HK\$254.0 million respectively. Revenue from the recreational boat and vehicle end market increased by 50.6% year-on-year to HK\$188.1 million, which was mainly driven by the active cooperation between the Group and its customers to develop “staycation” and new products and new opportunities in health and sports trends. Against the backdrop of global pandemic and power restrictions in the PRC, market demand for distributed power engines increased. As a result, sales of high horsepower engines increased rapidly by 56.0% during the second half of the year, and for the full year 2021, the growth rate was 22.2%.

Due to the continuous impact of the pandemic, international travel in the aerospace industry remained at a “near halt” in 2021, resulting in a slight increase of 5.5% in product sales revenue in the related aerospace end-market as compared to last year. The medical end-market was benefited from the recovery of customer demand, with revenue increased by 25.8% during the year.

By End Market	Year ended 31 December					
	2021		2020		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Automotive	1,723.3	45.6%	1,394.2	47.7%	329.1	23.6%
— Passenger Car	968.3	25.6%	868.6	29.7%	99.7	11.5%
— Commercial Vehicle	755.0	20.0%	525.6	18.0%	229.4	43.6%
Industrial & others	1,748.6	46.3%	1,258.3	43.0%	490.3	39.0%
— High Horsepower Engine	335.3	8.9%	274.4	9.4%	60.9	22.2%
— Hydraulic Equipment	399.9	10.6%	247.7	8.5%	152.2	61.4%
— Construction Equipment	276.0	7.3%	178.0	6.0%	98.0	55.1%
— Agricultural Equipment	254.0	6.7%	161.5	5.5%	92.5	57.3%
— Recreational Boat and Vehicle	188.1	5.0%	124.9	4.3%	63.2	50.6%
— Others	295.3	7.8%	271.8	9.3%	23.5	8.6%
Aerospace & Medical	305.8	8.1%	272.1	9.3%	33.7	12.4%
— Aerospace	190.4	5.0%	180.4	6.2%	10.0	5.5%
— Medical	115.4	3.1%	91.7	3.1%	23.7	25.8%
Total	3,777.7	100.0%	2,924.6	100.0%	853.1	29.2%

In local currencies, the Group's revenue increased by 25.9% as compared to the year ended 31 December 2020. This growth rate is lower than the reported growth rate in revenue because of the appreciation of RMB and Euro against HK\$ during the year ended 31 December 2021 of 7.1% and 3.3%, respectively, as compared to the last year.

Revenue by business segment

In respect of revenue by business segment, the precision machining business of the Group grew most strongly, mainly due to the significant recovery of customer demand for the Group's precision machining plant in Turkey, a record high revenue of approximately EUR78 million was recorded during the year. In addition, benefitting from the successful development of a large number of new hydraulic SKUs with local hydraulic customers in the PRC last year, the demand for the Group's precision machining products in the PRC has grown strongly in the first half of the year, driving the overall revenue of this business segment of the Group to grow by 44.5% year-on-year. Against the backdrop of global pandemic and power restrictions in the PRC in the second half of 2021, market demand for distributed power engines significantly increased. As a result, sand casting revenue significantly increased by 32.9% to HK\$578.5 million throughout the year. Sales of investment casting and surface treatment business has achieved satisfactory performance in 2021, of which the growth pace of sales from North America customers of investment casting accelerated in the second half of the year, resulting in a year-on-year increase of 19.1% throughout the year. Meanwhile, surface treatment business benefited from the recovery of the automotive industry in the PRC and the successful development of certain customers of surface treatment for new energy vehicles by the Group, thus recorded a year-on-year increase of 18.9% in revenue.

By Business	Year ended 31 December				Increase/Decrease	
	2021		2020		HK\$ million	Change
	HK\$ million	Proportion	HK\$ million	Proportion		
Investment casting	1,556.4	41.2%	1,307.0	44.7%	249.4	19.1%
Precision machining	1,338.6	35.4%	926.6	31.7%	412.0	44.5%
Sand casting	578.5	15.3%	435.2	14.9%	143.3	32.9%
Surface treatment	304.2	8.1%	255.8	8.7%	48.4	18.9%
Total	3,777.7	100.0%	2,924.6	100.0%	853.1	29.2%

Revenue by geographical market

In 2021, the Group achieved remarkable revenue growth of 35.0%, 26.1% and 24.6% in Americas, Asia and Europe, respectively.

By Geographical Market	Year ended 31 December					
	2021		2020		Increase/Decrease	
	<i>HK\$ million</i>	<i>Proportion</i>	<i>HK\$ million</i>	<i>Proportion</i>	<i>HK\$ million</i>	<i>Change</i>
Americas	1,567.2	41.5%	1,160.5	39.7%	406.7	35.0%
— United States	1,420.4	37.6%	1,073.2	36.7%	347.2	32.4%
— Others	146.8	3.9%	87.3	3.0%	59.5	68.2%
Europe	1,161.0	30.7%	932.1	31.9%	228.9	24.6%
Asia	1,049.5	27.8%	832.0	28.4%	217.5	26.1%
— the PRC	951.7	25.2%	780.8	26.7%	170.9	21.9%
— Others	97.8	2.6%	51.2	1.7%	46.6	91.0%
Total	3,777.7	100.0%	2,924.6	100.0%	853.1	29.2%

MARKET AND BUSINESS REVIEW

Throughout 2021, under the continuous spread and volatile situation of COVID-19, although the global economy has not returned to pre-pandemic level, the Group has seen a strong recovery in certain segment end-markets, such as commercial vehicle, hydraulic equipment, construction equipment, agricultural equipment, recreational boat and vehicle, and the revenue in these end-markets has even exceeded the highest level in history. At the same time, the Group has also acquired a number of new customers and businesses during the year. Though the current aerospace business market recovery is relatively slow, the number of newly developed aerospace SKUs of the Group in 2021 increased by 54.7% year-on-year to 215 units, reaching a record high, which may generate peak revenue of HK\$120 million per annum. With the gradual recovery of the aerospace business market, it is expected that the business in the aerospace segment will likely show a more significant recovery in 2022.

As one of the few leading manufacturers with global manufacturing network, the Group is committed to the optimization of global production deployment. The Group has constructed the Mexico SLP Campus, its North America production base in Mexico, since 2019, of which the sand casting plant and the precision machining plant have been put into production in November 2021, while the construction of the other three plants, including investment casting, aerospace components and surface treatment plants has also progressed, and they are planned to commence production in 2022. It is expected that flexibility of the Group's operations will be enhanced, potential supply chain and tariff risks caused by geopolitics can be mitigated, and production chain cycle can be significantly shortened, thus overall operational efficiency can be improved. Following the massive construction plans of the U.S. government, demand for construction equipment in the U.S. has been increasing. The Group will be able to seize market opportunities and growth momentum in a timely manner. Revenue from the plants in Mexico surged from approximately HK\$50 million to over HK\$100 million in 2021, representing an increase of nearly 100%. As the plants in Mexico SLP Campus gradually commenced operations, production capacity will be greatly expanded. It is estimated that revenue from the plants in Mexico may reach HK\$300 million in 2022.

In order to further elevate operation efficiency, the Group decided to close a plant of investment casting parts in Germany in the first half of 2021. In addition, the Group merged two subsidiaries in south and north Germany by the end of the year to enhance operation efficiency; together with the plants in Czech and Turkey, the Group has a comprehensive production capacity in the entire Europe region. On the other hand, certain countries relieved foreign travel restrictions after international travel around the globe remained at a “near halt” for over two years. Demand from aerospace customers has increased, and this is expected to bring positive impacts to the Group’s business in the aerospace end market. To grasp the opportunities of the economic recovery in the post-pandemic era, the Group further expanded aerospace business in 2021 and established a new business organization of “Aerotek Business Unit” in July 2021 for the provision of more focused and speedy service to customers in aerospace and medical end markets. The Group’s endeavors in the aerospace business throughout the years will score great success. In 2021, the Group was awarded the “2020 Excellent Supplier” by GE Aviation and “ICS Supplier Award of Year 2020” by Honeywell Aerospace, reflecting the trust and recognition by customers in the aerospace industry.

As a manufacturer of casting and machining parts with business operations all over three continents, the Group adheres to the Environmental, Social and Governance (“ESG”) principles and actively bears social responsibilities while expanding its business in the end markets. The Group insists in low carbon emissions and reduction of energy consumption during the manufacturing process and has recorded improvement in various key performance indices of environmental protection in 2021, including a year-on-year decrease of 2.2% in total energy consumption per unit revenue and a year-on-year decrease of 1.9% in greenhouse gas emission per unit revenue. Determination and efforts of the Group in energy conservation have been recognized by professional institutions. The Group won the grand award of “Excellent ESG Enterprise of 2020-2021” by Hong Kong Economic Times in 2021 and was granted green loan of a total of approximately HK\$400 million by DBS Bank and Citibank respectively for purchase of environmentally friendly and energy-efficient production equipment so that the Group can enhance production efficiency while contributing to the creation of a new era of low carbon emission and energy conservation, and give back to society with concrete actions like pursuing green financing. In addition, business performance, investment value and growth potential of the Group has been recognized by the market. During the year, the Group has been chosen as the “Listed Enterprises of the Year 2021” by the Chinese edition of Bloomberg Businessweek, one of the world’s top media channels, and has been awarded the grand award of “Listed Companies with Most Investment Value” by Sina Finance, a main media channel in China.

BUSINESS OUTLOOK

U.S.-China strategic rivalry has been continuing for years, and has not shown signs of reduction. To mitigate the potential increase in transportation costs and tariff risks brought about by geopolitics, the Group adheres to the strategies of “Global Footprint”, “Region for Region Manufacturing” and “Dual Source Production” and has constructed the Mexico SLP Campus to serve a range of end markets in North America including automotive, construction and agricultural equipment, high horsepower engine, hydraulic equipment and aerospace and medical. There are a total of five plants in the Mexico SLP Campus. Currently, sand casting and precision machining plants have commenced operations, and the remaining investment casting, aerospace parts and surface treatment plants are under construction. It is expected that these plants will commence operations in 2022 for significant enhancement in production capacity to meet customers’ needs. Along with 10 plants in the PRC, the precision machining plants in Turkey and investment casting production plants in Germany and Czech, the Group currently has modernized production bases in three continents in the world to enhance overall operation efficiency.

Despite the worries brought about by the Omicron variant, lockdowns and entry restrictions have been lifted in various countries as vaccination rate around the global surges. It is expected that international travel activities will be gradually resumed in mid-2022, and the business of aerospace end market may become the future growth engine of the Group again. Meanwhile, the business of industrial and others end market of the Group still possesses massive growth potential. In particular, bills in relation to enhancement of local infrastructure projects have passed in the U.S. Demand for construction equipment and commercial vehicles, as well as the hydraulic equipment associated with construction equipment, will surge and this is expected to drive the growth the Group's business in the industrial end market. Embracing various opportunities ahead, the Group has been well positioned to seize the opportunities. As at 28 February 2022, the Group's total order on hand to be fulfilled in the next twelve months reached HK\$3,748 million, representing a year-on-year increase of 42.9%; or an increase of 18.4% when comparing to the next twelve months order on hand as of 31 July 2021.

Looking forward, driven by the rising demand, along with the slowdown in the increase in the prices of certain raw materials, the agreement reached with major customers at the end of 2021 to adjust product prices, and the optimization of internal processes to improve operational efficiency, gradual improvements in the Group's profit margin in the future is anticipated. Meanwhile, the Group will continue to strengthen its research and development capabilities while expanding its production capacity to provide customers with more diversified and customized products and services. Leveraging on its global production base and capacity expansion, the Group will consolidate and expand its global customer base, seize the business opportunities arising from the recovery of market demand after the pandemic, and strive to achieve sustainable profit growth to create better returns for its shareholders in the long run.

On behalf of the Board, I would like to express my sincere gratitude to all our customers, shareholders, employees, suppliers and other stakeholders for their continuous support.

LU Ruibo

Chairman and Chief Executive Officer

Hong Kong, 10 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

<i>HK\$ million</i>	Year ended 31 December		Change
	2021	2020	
Revenue	3,777.7	2,924.6	29.2%
Gross profit	1,022.4	767.3	33.2%
Gross profit margin	27.1%	26.2%	0.9%
Other revenue	34.4	36.6	-6.0%
Other net loss	(48.0)	(27.8)	72.7%
Impairment loss of goodwill and other assets	–	(445.2)	N/A
Selling and distribution expenses	(187.4)	(117.0)	60.2%
Administrative and other operating expenses	(328.4)	(245.9)	33.6%
Profit/(loss) from operations	493.0	(32.0)	1,640.6%
Operating profit/(loss) margin	13.1%	-1.1%	14.2%
Net finance costs	(24.4)	(20.8)	17.3%
Profit/(loss) before taxation	468.6	(52.8)	987.5%
Income tax	(82.8)	(91.5)	-9.5%
Adjusted effective tax rate ¹	18.4%	23.6%	-5.1%
Profit/(loss) for the year	385.8	(144.3)	367.4%
Net profit/(loss) margin	10.2%	-4.9%	15.1%

Attributable to:

Profit/(loss) attributable to shareholders of the Company	382.8	(148.2)	358.3%
Non-controlling interest	3.0	3.9	-23.1%
	385.8	(144.3)	367.4%

<i>HK\$ million</i>	Year ended 31 December		Change
	2021	2020	
Adjusted profit attributable to shareholders of the Company ²	422.2	313.4	34.7%
Earnings/(loss) per share — Basic (HK cents)	20.3	(7.9)	357.0%
Adjusted basic earnings per share (HK cents)	22.4	16.6	34.9%
EBITDA ³	910.0	356.7	155.1%
EBITDA margin	24.1%	12.2%	11.9%
Adjusted EBITDA ⁴	940.9	801.9	17.3%
Adjusted EBITDA margin	24.9%	27.4%	-2.5%
Free cash (outflow)/inflow from operations ⁵	(606.3)	364.0	-266.6%

<i>HK\$ million</i>	As at 31 December 2021	As at 31 December 2020	Change
Cash and cash equivalents	579.0	602.0	-3.8%
Total debt	1,544.9	853.8	80.9%
Net debt (total debt less cash and cash equivalents)	965.9	251.8	283.6%
Total equity	4,379.4	4,032.9	8.6%
Market capitalization ⁶	3,484.1	4,708.2	-26.0%
Enterprise value ⁷	4,473.3	4,979.8	-10.2%

Key Financial Ratios

Adjusted return on equity ⁸	10.1%	7.8%
Enterprise value to adjusted EBITDA	4.8	6.2
Net debt to adjusted EBITDA	1.0	0.3
Net gearing ratio	22.1%	6.2%
Interest coverage ⁹	18.5	11.6

Note:

1 Adjusted effective tax rate is computed as below:

	Year ended 31 December	
	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit/(loss) before taxation	468.6	(52.8)
Add:		
— Impairment loss of goodwill and other assets	—	445.2
— Provision for staff severance related costs in relation to the closure of a Germany manufacturing plant	30.9	—
Adjusted profit before taxation	499.5	392.4
Income tax	(82.8)	(91.5)
Add: Tax impact on adjusting items above	(9.3)	(1.0)
Adjusted income tax	(92.1)	(92.5)
Adjusted effective tax rate	18.4%	23.6%

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

	Year ended 31 December	
	2021	2020
	HK\$ million	HK\$ million
Profit/(loss) for the year	385.8	(144.3)
Adjustments:		
— Impairment loss of goodwill and other assets, net of tax	—	444.2
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant, net of tax	21.6	—
— Amortization and depreciation related to purchase price allocation, net of tax	17.8	17.4
	<u>425.2</u>	<u>317.3</u>
Adjusted profit for the year	425.2	317.3
Less: Profit attributable to non-controlling interest	(3.0)	(3.9)
	<u>(3.0)</u>	<u>(3.9)</u>
Adjusted profit attributable to shareholders of the Company	422.2	313.4
	<u>422.2</u>	<u>313.4</u>

- 3 EBITDA refers to earnings before interest, tax, depreciation and amortization.

- 4 Adjusted EBITDA represents EBITDA added back below significant one-off items for the years ended 31 December 2021 and 2020.

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

	Year ended 31 December	
	2021	2020
	HK\$ million	HK\$ million
EBITDA	910.0	356.7
Adjustments:		
— Impairment loss of goodwill and other assets	—	445.2
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant	30.9	—
	<u>30.9</u>	<u>—</u>
Adjusted EBITDA	940.9	801.9
	<u>940.9</u>	<u>801.9</u>

- 5 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 in restricted deposits”).

- 6 Outstanding number of shares multiplied by the closing share price (HK\$1.85 per share as of 31 December 2021).

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

- 8 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 2021 and 2020.

- 9 Interest coverage is profit from operations (adjusted for significant one-off items) divided by interest expenses on total interest-bearing bank loans and lease liabilities.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2021 increased by 29.2% compared to last year of HK\$2,924.6 million. In local currencies, the Group's revenue increased by 25.9% compared to last year since RMB and EUR appreciated against Hong Kong Dollars by 7.1% and 3.3% respectively as compared to 2020.

Gross profit and gross profit margin

The Group's gross profit increased by HK\$255.1 million, or 33.2% to HK\$1,022.4 million for the year ended 31 December 2021 as compared to HK\$767.3 million for the year ended 31 December 2020. All business segments registered a double-digit growth in gross profit with biggest increase from the investment casting business which saw its gross profit increased by HK\$109.8 million, or 29.6% to HK\$481.2 million. The gross profit of the precision machining business increased by HK\$101.3 million, or 49.0% to HK\$308.2 million during the year. The gross profit of the sand casting business increased by HK\$31.3 million, or 28.9% to HK\$139.6 million, and the gross profit of the surface treatment business also increased by HK\$12.7 million, or 15.7% to HK\$93.4 million during the year.

The Group's gross profit margin was 27.1% for the year ended 31 December 2021, compared with 26.2% in last year. Investment casting business gross margin increased by 2.5% to 30.9% as a result of an increase in revenue particularly on industrial and others end-markets. Precision machining business gross margin also expanded 0.7% to 23.0% mainly due to strong growth in revenue which offset the effect of the increase in cost of materials and other production costs. Sand casting and surface treatment business gross margins dropped slightly by 0.8% to 24.1% and 30.7% respectively mainly as a result of higher cost of materials and other production costs.

Other revenue

During the year ended 31 December 2021, the Group's other revenue decreased by HK\$2.2 million to HK\$34.4 million (2020: HK\$36.6 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

The Group recorded other net loss of HK\$48.0 million for the year ended 31 December 2021 (2020: HK\$27.8 million). Other net loss mainly represented a provision of staff severance and related expense of HK\$30.9 million in relation to the closure of a Germany production plant, and the net foreign exchange loss of HK\$16.8 million arising mainly from the fluctuations of RMB and US dollars against Hong Kong Dollars during the year.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 60.2% to HK\$187.4 million for the year ended 31 December 2021 from last year of HK\$117.0 million. Apart from the effect from increase in revenue of 29.2% during the year, the increase in selling and distribution expenses were mainly due to the increase in transportation expenses of 136.1% to HK\$95.5 million as a result of significant hike in ocean freight rates, and also the increase in customers' demand and severe shortage of containers that triggered over HK\$27 million of air freight expenses during the year. Selling and distribution expenses to revenue ratio was 5.0% for the year (2020: 4.0%).

Administrative and other operating expenses

The Group's administrative and other operating expenses increased by HK\$82.5 million, or 33.6%, to HK\$328.4 million for the year ended 31 December 2021, as compared to HK\$245.9 million for the year ended 31 December 2020. Staff costs in particular increased by HK\$46.8 million during the year, mainly due to salary inflation, increase in performance bonus provision and the negative impact from appreciation in RMB versus Hong Kong dollars. In last year, there was a reversal of bad debt provision of HK\$13.8 million while in current year, there was a modest bad debt provision expense of HK\$0.8 million.

Net finance costs

The Group's net finance costs increased by HK\$3.6 million to HK\$24.4 million for the year ended 31 December 2021. The increase was mainly attributable to the increase in bank loans as a result of increase in capital expenditures and net working capital during the year.

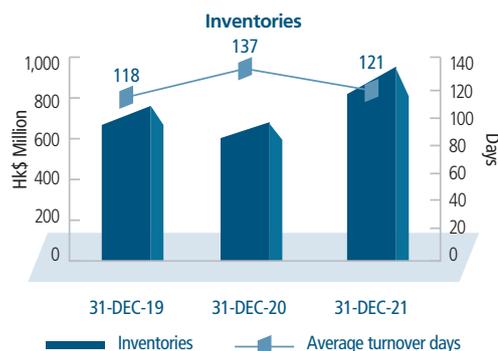
Income tax

The Group's income tax expenses decreased to HK\$82.8 million for the year ended 31 December 2021 from HK\$91.5 million for the year ended 31 December 2020. A lower adjusted effective tax rate during the year was mainly due to the deferred tax asset of HK\$17.1 million recognised in respect of the unutilised tax losses brought forward during the year as a result of the merger of two Germany entities.

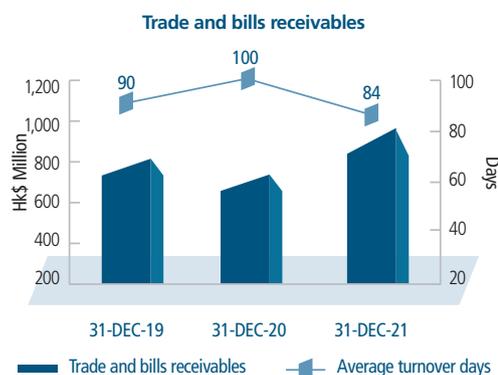
Working capital

	As at 31 December 2021 <i>HK\$ million</i>	As at 31 December 2020 <i>HK\$ million</i>
Inventories	974.6	705.3
Trade and bills receivables	972.2	748.1
Prepayments, deposits and other receivables	219.9	74.3
Trade payables	(349.3)	(280.1)
Other payables and accruals	(381.7)	(196.2)
Deferred income	(140.8)	(59.4)
Defined benefit retirement plans obligation	(65.2)	(77.8)
Total working capital	1,229.7	914.2

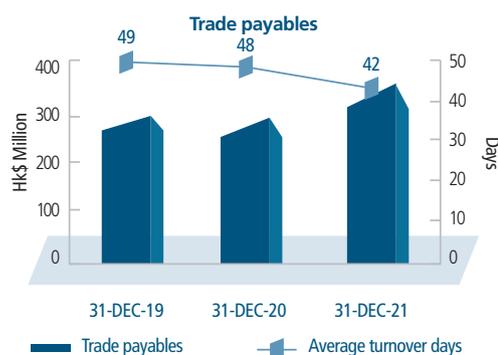
Inventories increased HK\$269.3 million to HK\$974.6 million as of 31 December 2021 (31 December 2020: HK\$705.3 million) mainly due to the increase in finished goods and work in progress to cope with the increase in customers' demand during the year. Nevertheless, there was a decrease in average inventory turnover days from 137 days as at 31 December 2020 to 121 days as at 31 December 2021 mainly due to growth in revenue outpaces the increase in the balance of inventories.



Trade and bills receivables increased HK\$224.1 million to HK\$972.2 million as of 31 December 2021 (31 December 2020: HK\$748.1 million) mainly due to increase in revenue during the year. Trade and bills receivables average turnover days decreased from 100 days as at 31 December 2020 to 84 days as at 31 December 2021, mainly due to stringent credit control. 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 2021, current receivables and overdue balances of less than 30 days has maintained at 94.5% (As at 31 December 2020: 94.8%) of the balance of the gross trade and bills receivables.



Trade payables increased HK\$69.2 million to HK\$349.3 million as of 31 December 2021 (31 December 2020: HK\$280.1 million). The increase was generally in line with the increase in the scope of operation. Trade payable average turnover days as at 31 December 2021 decreased to 42 days as compared to 48 days as at 31 December 2020.



EBITDA and Net profit/(loss)

The Group's EBITDA was HK\$910.0 million, or EBITDA margin of 24.1% for the year ended 31 December 2021, as compared to HK\$356.7 million, or EBITDA margin of 12.2% in last year. Profit attributable to shareholders of the Company was HK\$382.8 million, as compared to a loss of HK\$148.2 million from last year. Net profit margin for the year was 10.2%, as compared to -4.9% in last year.

Excluding the impact of impairment loss of goodwill and other assets and provision for staff severance related costs in relation to the closure of a Germany manufacturing plant, the Group's adjusted EBITDA margin was 24.9%, which was 2.5% lower than 27.4% attained in last year, and the adjusted profit attributable to shareholders of the Company was HK\$422.2 million for the year ended 31 December 2021, an increase of 34.7% as compared to HK\$313.4 million from last year. Adjusted net profit margin was 11.3% for the year ended 31 December 2021, as compared to 10.8% attained in last year.

Financial resources and liquidity

As at 31 December 2021, the total assets of the Group increased by 24.2% to HK\$7,042.3 million and shareholders' equity increased by 8.6% to HK\$4,379.4 million as compared to the amount as at 31 December 2020. The increase of total assets was mainly attributable to the increase in capital expenditures and working capital during the year. The Group's current ratio as at 31 December 2021 was 1.74, as compared to 2.12 as at 31 December 2020. The change in current ratio was primarily due to the increase in short-term bank loans of the Group to support increase in capital expenditure and working capital during the year.

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. The Group had operating cash inflow of HK\$424.4 million for the year ended 31 December 2021. 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. 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.

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

	Year ended 31 December	
	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Cash (used in)/generated from:		
Operating activities	424.4	888.7
Investing activities	(1,030.6)	(503.0)
Financing activities	579.9	(373.3)
	<u>579.9</u>	<u>(373.3)</u>
Net movement in cash	(26.3)	12.4
	<u><u>(26.3)</u></u>	<u><u>12.4</u></u>

Cash flows generated from operating activities was HK\$424.4 million, a decrease of HK\$464.3 million compared to HK\$888.7 million in last year. The decrease in cash flows from operating activities was mainly due to increase in net working capital during the year.

Cash flows used in investing activities was HK\$1,030.6 million, an increase of HK\$527.6 million compared to HK\$503.0 million in last year. The major items on investment activities were payment for capital expenditure which included purchases of machinery, equipment, tooling and infrastructure of HK\$962.0 million. No amount of capital expenditure was funded from the proceeds of the Global Offering in 2021 (2020: HK\$234.2 million).

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

	Year ended 31 December	
	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Payment of property, plant and equipment	(962.0)	(485.0)
Payment for deferred expenses	(74.9)	(62.5)
Payment of deferred consideration payable	–	(34.9)
Decrease in restricted deposits	–	56.6
Others	6.3	22.8
	<u>6.3</u>	<u>22.8</u>
Net cash used in investing activities	(1,030.6)	(503.0)
	<u><u>(1,030.6)</u></u>	<u><u>(503.0)</u></u>

Cash flows generated from financing activities was HK\$579.9 million, compared to cash flows used in financing activities of HK\$373.3 million in last year. The change was mainly due to increase in capital expenditures in current year which required an increase in bank borrowing to fund the investing activities.

The table below sets forth the cash generated from/(used in) financing activities for the years indicated:

	Year ended 31 December	
	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Proceeds from bank loans	1,212.8	736.3
Repayment of bank loans	(491.5)	(901.0)
Interest paid	(27.2)	(34.2)
Dividend paid	(88.5)	(105.5)
Lease rentals paid	(25.7)	(68.9)
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	<u>579.9</u>	<u>(373.3)</u>

Indebtedness

As at 31 December 2021, the Group's total borrowings was HK\$1,544.9 million, an increase of HK\$691.1 million from HK\$853.8 million as at 31 December 2020.

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

	As at	As at
	31 December	31 December
	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Current bank loans	786.7	460.9
Non-current bank loans	742.2	355.3
Current lease liabilities	9.4	24.6
Non-current lease liabilities	6.6	13.0
	<hr/>	<hr/>
Total borrowings	<u>1,544.9</u>	<u>853.8</u>

As at 31 December 2021, the Group had total banking facilities available for draw-down of HK\$798.4 million.

The Group's net gearing ratio as at 31 December 2021 was 22.1% (as at 31 December 2020: 6.2%). This ratio is based on total borrowings less cash and cash equivalents divided by total equity. The gearing level has increased mainly due to increase in net working capital and higher capital expenditures to finance the plants construction at Mexico during the year.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. Capital expenditures of the Group amounted HK\$1,054.1 million for the year ended 31 December 2021 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\$590.1 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 2021 amounted to HK\$322.1 million, which were mainly related to plants construction and acquisition of machinery.

Pledge of Assets

No property, plant and equipment of the Group were pledged as security for bank borrowings/facilities as at 31 December 2021 (as at 31 December 2020: HK\$15.7 million).

Contingent Liabilities

No material contingent liability exists as at 31 December 2021.

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 2021.

Significant Investments

As at 31 December 2021, 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 revenue currency proportion with a view to reducing the impact of exchange rate fluctuations. As at 31 December 2021, 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\$186.1 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 2021, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 31 December 2021, the Group had about 7,155 full-time employees of whom 5,769 were based in Mainland China and 1,386 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\$1,091.0 million for the year ended 31 December 2021 (2020: HK\$790.4 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 2021 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 2021:

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 2021	Unutilized amount of the Actual Amount of Net Proceeds as at 31 December 2021
		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	–
		<u>903.5</u>	<u>100.0%</u>	<u>1,031.5</u>	<u>100.0%</u>	<u>812.5</u>	<u>219.0</u>

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 announcement, 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 2021 will be fully utilized by 31 December 2023.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the year ended 31 December 2021*

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	3,777,701	2,924,614
Cost of sales		<u>(2,755,264)</u>	<u>(2,157,314)</u>
Gross profit		1,022,437	767,300
Other revenue	4(a)	34,404	36,565
Other net loss	4(b)	(47,999)	(27,879)
Impairment loss of goodwill and other assets	9	–	(445,201)
Selling and distribution expenses		(187,445)	(116,956)
Administrative and other operating expenses		<u>(328,336)</u>	<u>(245,853)</u>
Profit/(loss) from operations		493,061	(32,024)
Net finance costs	5(a)	<u>(24,426)</u>	<u>(20,773)</u>
Profit/(loss) before taxation	5	468,635	(52,797)
Income tax	6	<u>(82,798)</u>	<u>(91,517)</u>
Profit/(loss) for the year		<u>385,837</u>	<u>(144,314)</u>
Attributable to:			
Equity shareholders of the Company		382,780	(148,191)
Non-controlling interest		<u>3,057</u>	<u>3,877</u>
Profit/(loss) for the year		<u>385,837</u>	<u>(144,314)</u>
Earnings/(loss) per share	8		
Basic (<i>HK cents</i>)		20.3	(7.9)
Diluted (<i>HK cents</i>)		<u>20.3</u>	<u>(7.9)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit/(loss) for the year	<u>385,837</u>	<u>(144,314)</u>
Other comprehensive income for the year (after tax adjustments)		
<i>Items that will not be reclassified to profit or loss:</i>		
Effect of remeasurement of defined benefit retirement plans obligation (net of tax of HK\$716,000 (2020: HK\$1,216,000))	(984)	(5,909)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong Dollars (“HK\$”)	<u>43,374</u>	<u>254,586</u>
Other comprehensive income for the year	<u>42,390</u>	<u>248,677</u>
Total comprehensive income for the year	<u>428,227</u>	<u>104,363</u>
Attributable to:		
Equity shareholders of the Company	424,655	99,574
Non-controlling interest	<u>3,572</u>	<u>4,789</u>
Total comprehensive income for the year	<u>428,227</u>	<u>104,363</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Non-current assets			
Property, plant and equipment		3,970,056	3,256,627
Prepayments for purchase of property, plant and equipment		54,498	25,333
Intangible assets		43,726	60,315
Goodwill	9	–	–
Deferred expenses		178,446	173,158
Other financial asset		1,722	1,673
Deferred tax assets		46,011	20,268
		<u>4,294,459</u>	<u>3,537,374</u>
Current assets			
Inventories		974,635	705,335
Trade and bills receivables	10	972,239	748,106
Prepayments, deposits and other receivables		219,889	74,289
Taxation recoverable		2,103	5,206
Cash and cash equivalents		578,964	601,985
		<u>2,747,830</u>	<u>2,134,921</u>
Current liabilities			
Bank loans		786,656	460,866
Lease liabilities		9,384	24,611
Trade payables	11	349,310	280,143
Other payables and accruals		381,650	196,157
Taxation payable		56,134	45,591
		<u>1,583,134</u>	<u>1,007,368</u>
Net current assets		<u>1,164,696</u>	<u>1,127,553</u>
Total assets less current liabilities		<u>5,459,155</u>	<u>4,664,927</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities		
Bank loans	742,249	355,265
Lease liabilities	6,565	13,013
Deferred income	140,772	59,391
Defined benefit retirement plans obligation	65,188	77,824
Deferred tax liabilities	125,000	126,537
	<u>1,079,774</u>	<u>632,030</u>
NET ASSETS	<u><u>4,379,381</u></u>	<u><u>4,032,897</u></u>
CAPITAL AND RESERVES		
Share capital	188,330	188,330
Reserves	4,167,719	3,824,807
Total equity attributable to equity shareholders of the Company	4,356,049	4,013,137
Non-controlling interest	<u>23,332</u>	<u>19,760</u>
TOTAL EQUITY	<u><u>4,379,381</u></u>	<u><u>4,032,897</u></u>

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 of the Cayman Islands.

The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 28 June 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, “**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.

The consolidated financial statements are presented in HK dollars, unless otherwise stated and have approved for issue by the Board of Directors on 10 March 2022. They have been prepared in accordance with all applicable International Financial Reporting Standard (“**IFRS**”) using the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The financial information relating to the financial year ended 31 December 2021 that is included in this preliminary annual results announcement does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

2 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:

- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

None of these developments had a material effect on how the Group’s results and financial position for the current or prior years have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year.

3 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	
	2021	2020
	HK\$’000	HK\$’000
Investment casting	1,556,457	1,307,026
Precision machining	1,338,597	926,604
Sand casting	578,479	435,177
Surface treatment	304,168	255,807
	<u>3,777,701</u>	<u>2,924,614</u>

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 3(b)(iii).

The Group had transactions with two (2020: two) customers exceeding 10% individually of its total revenue.

(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.

(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.

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 2021 and 2020 is set out below:

	Year ended 31 December 2021				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	1,556,457	1,338,597	578,479	304,168	3,777,701
Inter-segment revenue	-	-	-	34,139	34,139
Reportable segment revenue	<u>1,556,457</u>	<u>1,338,597</u>	<u>578,479</u>	<u>338,307</u>	<u>3,811,840</u>
Gross profit from external customers	481,250	308,183	139,609	93,395	1,022,437
Inter-segment gross profit	-	-	-	13,083	13,083
Reportable segment gross profit	<u>481,250</u>	<u>308,183</u>	<u>139,609</u>	<u>106,478</u>	<u>1,035,520</u>
Depreciation and amortization	<u>160,436</u>	<u>129,448</u>	<u>76,668</u>	<u>50,417</u>	<u>416,969</u>
Impairment of goodwill and other assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment profit	<u>452,115</u>	<u>255,958</u>	<u>138,899</u>	<u>119,734</u>	<u>966,706</u>
Reportable segment assets	<u>2,356,384</u>	<u>2,117,062</u>	<u>1,398,011</u>	<u>551,066</u>	<u>6,422,523</u>
	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	<u>1,307,026</u>	<u>926,604</u>	<u>435,177</u>	<u>278,270</u>	<u>2,947,077</u>
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	<u>371,406</u>	<u>206,879</u>	<u>108,323</u>	<u>88,470</u>	<u>775,078</u>
Depreciation and amortization	<u>150,165</u>	<u>119,269</u>	<u>71,518</u>	<u>47,815</u>	<u>388,767</u>
Impairment of goodwill and other assets	<u>-</u>	<u>215,071</u>	<u>-</u>	<u>230,130</u>	<u>445,201</u>
Reportable segment profit	<u>376,254</u>	<u>214,362</u>	<u>129,075</u>	<u>109,086</u>	<u>828,777</u>
Reportable segment assets	<u>1,914,219</u>	<u>1,786,756</u>	<u>816,764</u>	<u>535,180</u>	<u>5,052,919</u>

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

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	3,811,840	2,947,077
Elimination of inter-segment revenue	(34,139)	(22,463)
Consolidated revenue	<u>3,777,701</u>	<u>2,924,614</u>
Gross profit		
Reportable segment gross profit	1,035,520	775,078
Elimination of inter-segment gross profit	(13,083)	(7,778)
Consolidated gross profit	<u>1,022,437</u>	<u>767,300</u>
Profit		
Reportable segment profit	966,706	828,777
Elimination of inter-segment profit	(13,083)	(7,778)
Reportable segment profit derived from the Group's external customers	953,623	820,999
Other revenue	34,404	36,565
Other net loss	(47,999)	(27,879)
Impairment loss of goodwill and other assets	–	(445,201)
Unallocated head office and corporate expenses	(29,998)	(27,741)
Consolidated profit before interest, taxes, depreciation and amortization	910,030	356,743
Net finance costs	(24,426)	(20,773)
Depreciation and amortization	(416,969)	(388,767)
Consolidated profit/(loss) before taxation	<u>468,635</u>	<u>(52,797)</u>
	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	6,422,523	5,052,919
Elimination of inter-segment receivables	(13,230)	(9,085)
	6,409,293	5,043,834
Other financial asset	1,722	1,673
Deferred tax assets	46,011	20,268
Cash and cash equivalents	578,964	601,985
Unallocated head office and corporate assets	6,299	4,535
Consolidated total assets	<u>7,042,289</u>	<u>5,672,295</u>

(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.

Revenue from external customers

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Americas		
— United States of America ("United States")	1,420,399	1,073,217
— Others	146,759	87,267
Europe	1,161,050	932,069
Asia		
— The People's Republic of China ("PRC")	951,729	780,845
— Others	97,764	51,216
	<u>3,777,701</u>	<u>2,924,614</u>

Specified non-current assets

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
United States	8,294	11,743
Europe	544,688	620,466
The PRC	2,681,532	2,457,121
Mexico	1,013,934	427,776
	<u>4,248,448</u>	<u>3,517,106</u>

4 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Rental income (<i>Note i</i>)	593	573
Government grants (<i>Note ii</i>)	28,932	31,838
Others	4,879	4,154
	<u>34,404</u>	<u>36,565</u>

Notes:

- (i) As on 31 December 2021, the total minimum lease receivables under irrevocable operating leases agreements in the future amounted to HK\$1,420,000 (2020: HK\$669,000).

- (ii) During the year ended 31 December 2021, the Group received unconditional government subsidies of HK\$18,038,000 (2020: HK\$28,687,000) as encouragement of their contribution in technology development, environment protection and contribution in local economy.

During the year ended 31 December 2021, the Group received conditional government subsidies of HK\$96,347,000 (2020: HK\$2,052,000) as subsidies for acquisition of property, plant, equipment and leasehold land and investment incentive of the Group's PRC subsidiaries. During the year ended 31 December 2021, the Group recognized such subsidies of HK\$10,894,000 (2020: HK\$3,151,000) for acquisition of property, plant, equipment and leasehold land and investment incentive in the profit or loss when related conditions were satisfied.

(b) Other net loss

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net exchange loss	(16,825)	(26,088)
Net loss on disposal of property, plant and equipment	(765)	(1,559)
Severance costs (<i>Note</i>)	(30,929)	–
Others	520	(232)
	<u>(47,999)</u>	<u>(27,879)</u>

Note:

During the year, the Group reached an agreement with the labor union of BFG Feinguss Niederrhein GmbH, a former wholly-owned subsidiary of the Group incorporated in Germany, pursuant to which that the Group is expected to settle a total of Euro 3,309,000 for the severance costs. Accordingly, severance costs of HK\$30,929,000 was recognized in the Group's consolidated statement of profit or loss for the year ended 31 December 2021.

5 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	(3,904)	(14,946)
Interest expenses on bank loans	27,179	32,792
Interest expenses on lease liabilities	1,151	2,927
	<u>28,330</u>	<u>35,719</u>
Net finance costs	<u>24,426</u>	<u>20,773</u>

(b) Staff costs

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Salaries, wages and other benefits	1,008,643	744,093
Contributions to defined contribution retirement plans	72,164	34,667
Expenses recognized in respect of defined benefit retirement plans obligation	3,415	4,566
Equity settled share-based payment expenses	6,772	7,041
	<u>1,090,994</u>	<u>790,367</u>

(c) Other items

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Cost of inventories recognized as expenses*	2,755,264	2,157,314
Depreciation charges		
— owned property, plant and equipment	296,693	288,289
— right-of-use assets	31,106	23,477
Amortization of intangible assets	14,485	13,899
Amortization of deferred expenses	74,685	63,102
Research and development expenses	136,321	108,163
Provision/(reversal) of impairment loss on trade and other receivables	810	(13,812)
Impairment loss of goodwill and other assets	—	445,201
Provision for write-down of inventories	9,965	11,676
Auditors' remuneration		
— Audit services	5,002	4,565
— Non-audit services	933	565
	<u>933</u>	<u>565</u>

* 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 5(b) for each of these types of expenses.

6 INCOME TAX

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year (2020: 16.5%).

Income tax for the PRC operations is charged at the statutory rate of 25% of the assessable profits under tax rules and regulations in the PRC. Certain PRC subsidiaries are subject to a preferential income tax of 15% under the relevant tax rules and regulations.

Taxation in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

Income tax in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Current tax		
<i>PRC Corporate Income Tax</i>		
Provision for the year	50,129	24,179
Bonus deduction of research and development	(30,655)	(12,272)
Under/(over)-provision in respect of prior years	1,560	(385)
	<u>21,034</u>	<u>11,522</u>
<i>Hong Kong Profits Tax</i>		
Provision for the year	16,590	22,593
Over-provision in respect of prior years	(970)	(713)
	<u>15,620</u>	<u>21,880</u>
<i>Tax jurisdictions outside PRC and Hong Kong</i>		
Provision for the year	<u>42,428</u>	<u>37,014</u>
	79,082	70,416
Deferred tax		
Origination and reversal of temporary differences	<u>3,716</u>	21,101
Total income tax expense	<u>82,798</u>	<u>91,517</u>

7 DIVIDEND

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

	At 31 December	
	2021	2020
	HK\$'000	HK\$'000
First interim dividend declared and paid of HK\$0.029 per share (2020: HK\$0.024 per share)	54,616	45,199
Second interim dividend declared after the end of the reporting period of HK\$0.072 per share (2020: HK\$ nil per share)	135,597	–
Final dividend proposed after the end of the reporting period of HK\$ nil per share (2020: HK\$0.018 per share)	<u>–</u>	<u>33,899</u>
	<u>190,213</u>	<u>79,098</u>

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

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

	At 31 December	
	2021 HK\$'000	2020 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.018 per share (2020: HK\$0.032 per share)	<u>33,899</u>	<u>60,265</u>

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of HK\$382,780,000 (2020: loss of HK\$148,191,000) and the weighted average of 1,883,295,000 shares (2020: 1,883,295,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the company of HK\$382,780,000 (2020: loss of HK\$148,191,000) and the weighted average number of ordinary shares of 1,883,295,000 shares (2020: 1,883,295,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
Weighted average number of ordinary shares at 31 December	1,883,295,000	1,883,295,000
Effect of deemed issue of shares under the Company's share option scheme	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,883,295,000</u>	<u>1,883,295,000</u>

For the years ended 31 December 2021 and 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 earnings/(loss) per share as their inclusion would be anti-dilutive. Accordingly, diluted earnings/(loss) per share was the same as basic earnings/(loss) per share of the years ended 31 December 2021 and 2020.

9 GOODWILL

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 have reduced the Group's revenue and operating profit significantly. The management 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 COVID-19 wave 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 Shenhai Group and Cengiz Makina acquired by the Group in 2014 from certain independent third parties that primarily serve the automotive market had 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. Accordingly, impairment loss of HK\$439,970,000 was allocated to fully write off the goodwill and impairment loss of HK\$5,231,000 were allocated pro rata to other assets during the six months ended 30 June 2020.

10 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2021	2020
	HK\$'000	HK\$'000
Trade receivables	894,714	644,348
Bills receivable	89,081	115,799
	<u>983,795</u>	<u>760,147</u>
Less: loss allowance	<u>(11,556)</u>	<u>(12,041)</u>
	<u>972,239</u>	<u>748,106</u>

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

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	
	2021	2020
	HK\$'000	HK\$'000
Within 1 month	745,331	406,523
1 to 3 months	197,914	284,133
Over 3 months but within 12 months	28,994	57,450
	<u>972,239</u>	<u>748,106</u>

Trade and bills receivables are generally due within 15–120 days from the date of billing.

11 TRADE PAYABLES

	At 31 December	
	2021	2020
	HK\$'000	HK\$'000
Trade payables	<u>349,310</u>	<u>280,143</u>

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	
	2021	2020
	HK\$'000	HK\$'000
Within 1 month	197,506	158,914
1 to 3 months	138,598	109,092
Over 3 months	13,206	12,137
	<u>349,310</u>	<u>280,143</u>

CORPORATE GOVERNANCE FRAMEWORK

The Company believes that good corporate governance can enhance its overall effectiveness, and thus create additional value for its shareholders. The Company is committed to maintaining high standards and has applied the principles in the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) as set out in Appendix 14 of the Rules Governing to the Listing of the Stock Exchange (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.

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company’s corporate governance practices with effect from the listing date.

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 2021, 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 chief executive officer. 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix 10 of the 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 2021.

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

The forthcoming the annual general meeting of the Company (the “AGM”) will be held on Thursday, 5 May 2022. 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 Friday, 29 April 2022 to Thursday, 5 May 2022, 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 4:30 p.m. on Thursday, 28 April 2022.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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 2021.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company’s auditor, KPMG, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Boards and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) since 15 June 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. Members of the Audit Committee are three independent non-executive Directors, namely, Mr. YU Kwok Kuen Harry, Dr. YEN Gordon and Mr. LEE Siu Ming. Mr. YU Kwok Kuen Harry currently serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are making recommendation to the Board on the appointment and removal of external auditors, reviewing draft financial statements of the Group, attending any material advices or matters in financial reporting or otherwise arising from the audit process and overseeing the risk management policies and internal control procedures of the Group.

The Company’s consolidated financial statements for the year ended 31 December 2021 have been reviewed by the Audit Committee. The Audit Committee is of the view that the consolidated financial statements of the Company for the year ended 31 December 2021 comply with the applicable accounting standards and the disclosure requirements under the applicable laws and regulations, including the Listing Rules, and that adequate disclosures have been made.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.improrecision.com) and the Stock Exchange (www.hkexnews.hk). The 2021 annual report containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and dispatched to the shareholders in due course.

By order of the Board
IMPRO PRECISION INDUSTRIES LIMITED
LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 10 March 2022

As of the date of this announcement, the Board comprises five executive Directors, namely Mr. LU Ruibo, Ms. WANG Hui, Ina, Mr. YU Yuepeng, Ms. ZHU Liwei and Mr. WANG Dong and three independent non-executive Directors, namely Mr. YU Kwok Kuen Harry, Dr. YEN Gordon and Mr. LEE Siu Ming.