

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

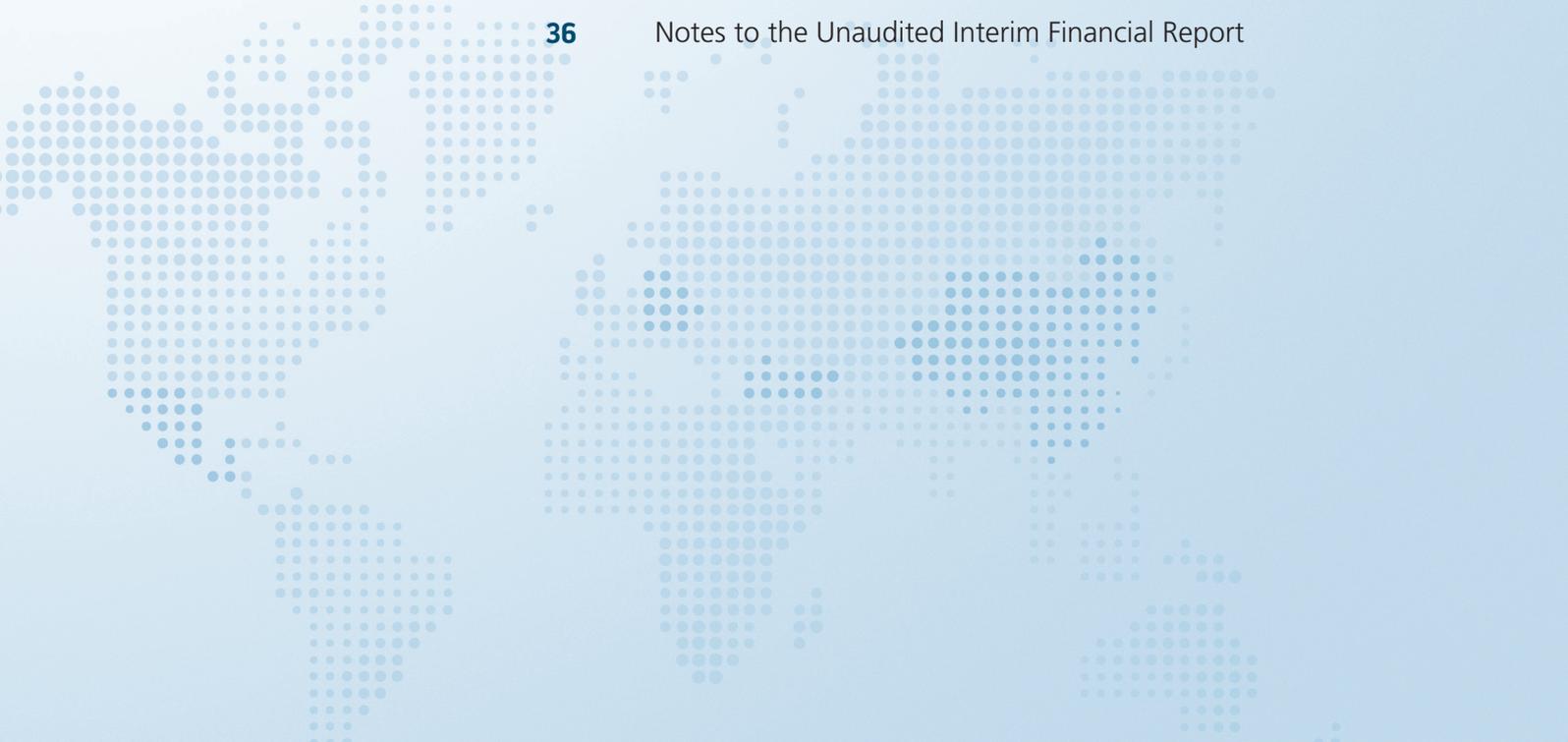
INTERIM REPORT
2023





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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, 8/F, 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
The 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
Accounting and Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
Central, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Limited
Bank of Jiangsu Co., Limited
BNP Paribas Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Citibank, N.A., Hong Kong Branch
DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
The Hong Kong and Shanghai Banking Corporation Limited

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

WEBSITE

www.improrecision.com

INVESTOR RELATIONS

ir@impro.com.hk

SHARE INFORMATION

Stock Code: 1286
Listing date: 28 June 2019
Board lot: 1,000 ordinary shares

KEY DIVIDEND INFORMATION

2023 Interim dividend of 8.0 HK cents per share

Ex-dividend date:
Monday, 21 August 2023

Closure of register of members:
Wednesday, 23 August 2023 to Friday, 25 August 2023
(both days inclusive)

Record date:
Friday, 25 August 2023

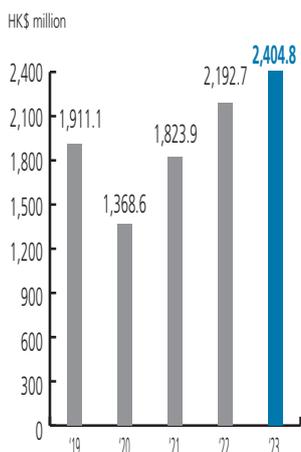
Interim dividend payable date:
On or before Wednesday, 6 September 2023

FINANCIAL HIGHLIGHTS

HK\$ million	Six months ended 30 June		
	2023	2022	Change
Revenue	2,404.8	2,192.7	9.7%
Gross profit	624.1	643.3	-3.0%
Gross profit margin	26.0%	29.3%	-3.3%
Profit attributable to equity shareholders of the Company	303.2	267.7	13.3%
Adjusted profit attributable to shareholders ¹	311.2	335.0	-7.1%
Basic earnings per share (HK cents)	16.09	14.22	13.2%
Adjusted basic earnings per share (HK cents)	16.51	17.79	-7.2%
EBITDA ²	671.0	563.1	19.2%
EBITDA margin	27.9%	25.7%	2.2%
Adjusted EBITDA ³	658.6	638.5	3.1%
Adjusted EBITDA margin	27.4%	29.1%	-1.7%
Last twelve months ("L12M") adjusted EBITDA ³	1,247.7	1,102.0	13.2%
Free cash inflow from operations ⁴	274.9	8.6	3,096.5%
Dividend per share (HK cents)	8.0	8.0	0%

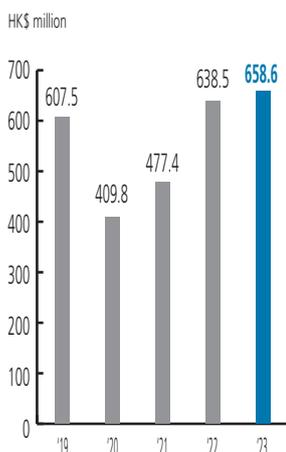
Revenue

9.7% ↑
HK\$2,404.8 million



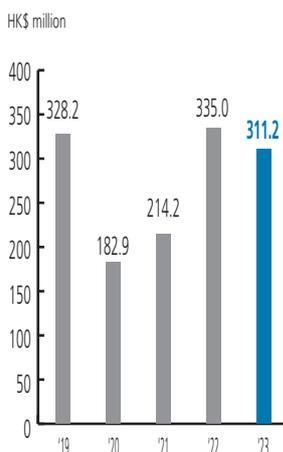
Adjusted EBITDA

3.1% ↑
HK\$658.6 million



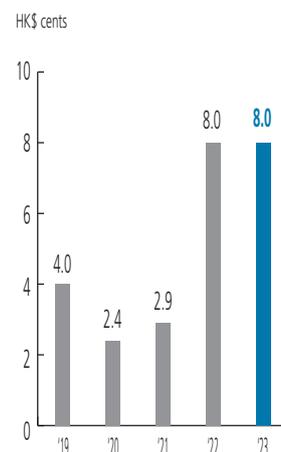
Adjusted Profit Attributable to Shareholders

7.1% ↓
HK\$311.2 million



Interim Dividend per Share

HK\$8.0 cents



For the six months ended 30 June

HK\$ million	As at 30 June 2023	As at 31 December 2022	Change
Cash and cash equivalents and pledged deposits	610.5	483.3	26.3%
Total debt	2,253.3	2,205.9	2.1%
Net debt (total debt less cash and cash equivalents and pledged deposits)	1,642.8	1,722.6	-4.6%
Total equity	4,693.1	4,398.0	6.7%
Market capitalization ⁵	4,768.6	4,183.7	14.0%
Enterprise value ⁶	6,430.0	5,925.1	8.5%
	As at 30 June 2023	As at 31 December 2022	
Key Financial Ratios			
Adjusted return on equity ⁷	13.8%	14.9%	
Price earnings ratio	7.7	7.2	
Enterprise value to L12M adjusted EBITDA	5.2	4.8	
Net debt to L12M adjusted EBITDA	1.3	1.4	
Net gearing ratio	35.0%	39.2%	
Adjusted interest coverage ratio	7.2	13.4	

FINANCIAL HIGHLIGHTS

Notes:

1 Reconciliation of profit for the period to adjusted profit attributable to shareholders (non-IFRS measure):

	Six months ended 30 June	
	2023 HK\$ million	2022 HK\$ million
Profit for the period	303.5	268.0
Adjustments:		
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident, net of tax and insurance claims received	(10.5)	72.5
— Gain on disposal of a Germany plant's land, property and machinery, net of tax	—	(13.1)
— Amortization and depreciation related to past purchase price allocation, net of tax	18.5	7.9
Adjusted profit for the period	311.5	335.3
Less: profit attributable to non-controlling interest	(0.3)	(0.3)
Adjusted profit attributable to shareholders	311.2	335.0

2 Earnings before interest, tax, depreciation and amortization.

3 Adjusted EBITDA represents EBITDA adjusted for below significant one-off items for the six months ended 30 June 2023 and 2022. Last twelve months ("L12M") adjusted EBITDA was derived from the last 12 months' adjusted EBITDA.

Reconciliation between EBITDA to adjusted EBITDA and L12M adjusted EBITDA (non-IFRS measures):

	Six months ended 30 June		L12M up to 30 June 2023		Year ended 31 December
	2023 HK\$ million	2022 HK\$ million	2023 HK\$ million	2022 HK\$ million	2022 HK\$ million
EBITDA	671.0	563.1	1,273.4	1,165.5	1,165.5
Adjustments:					
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident, net of insurance claims received	(12.4)	93.7	(25.7)	80.4	80.4
— Net gain on disposal of a Germany plant's land, property and machinery	—	(18.3)	—	(18.3)	(18.3)
Adjusted EBITDA	658.6	638.5	1,247.7	1,227.6	1,227.6

4 Net cash generated from operating activities less net cash used in investing activities.

5 Outstanding number of shares multiplied by the closing share price (HK\$2.53 per share as of 30 June 2023).

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

7 Adjusted return on equity is calculated as L12M adjusted profit attributable to shareholders divided by the average of total equity attributable to equity shareholders of the Company.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to report the interim results of Impro Precision Industries Limited (the "Company", together with its subsidiaries, the "Group" or "Impro") for the six months ended 30 June 2023 (the "Period").

During the six months ended 30 June 2023, the revenue of the Group amounted to HK\$2,404.8 million, representing an increase of 9.7% as compared to the same period last year. Profit attributable to equity shareholders of the Company (the "Shareholders") amounted to HK\$303.2 million, representing an increase of 13.3% as compared to the same period last year. If excluding certain significant one-off gains or losses and the amortization and depreciation charges in relation to the past purchase price allocation, the adjusted profit attributable to the Shareholders amounted to HK\$311.2 million, representing a year-on-year decrease of 7.1%. The basic earnings per share amounted to 16.09 HK cents (six months ended 30 June 2022: 14.22 HK cents). Taking into account the sound cash flow position and business prospects of the Group, the Board resolved to declare an interim dividend of 8.0 HK cents per share for the six months ended 30 June 2023 (six months ended 30 June 2022: 8.0 HK cents).

In the first half of 2023, the aerospace, energy and medical end-markets recorded a significant growth of 67.3%, which mainly benefited from the recovery of the aerospace industry, increased market share and the mass production of a large number of new SKUs, as well as additional revenue resulting from the acquisition of Foshan Ameriforge last year. In terms of diversified industrials end-markets, the sales of high horsepower engine and construction equipment end-markets continued to grow, while the additional revenue contributed by the hydraulic orbital motor business acquired by the Group last year drove up the sales in diversified industrials end-markets with an increase of 10.5%. However, due to the slowdown of the PRC's economy from the second quarter and the failure to fully resume work and production following the fire incident in Nantong plant, the automotive end-market and certain diversified industrials end-markets in China recorded a decline in sales, dampening the Group's sales growth in the first half of 2023.

In addition, in the first half of this year, the Group's new Mexico plants remained in the ramp-up stage. Coupled with greater depreciation charges and significant year-on-year appreciation of Mexican currency exchange rate, the Mexican operations recorded greater losses. Moreover, under the impact of the fire incident in early June last year, Nantong plant recorded an adjusted loss after tax of HK\$17.1 million in the first half of this year as compared to an adjusted profit after tax of HK\$12.8 million for the same period last year. Meanwhile, mainly due to the interest rate hikes of US dollar and Hong Kong dollar, the Group's net finance cost in the first half of this year increased significantly by 1.71 times year-on-year to HK\$50.4 million as compared to HK\$18.6 million for the same period last year. As a result of the factors above, the growth of the Group's after-tax profit in the first half of this year was under pressure. Fortunately, capitalising on the Group's strategies of "Global Footprint" and "Diversified End-markets", most of the plants in the PRC achieved relatively satisfactory operating performance during the Period, resulting in an increase of 13.3% and a decrease of 7.1%, respectively, in the Group's profit attributable to the equity shareholders of the Company before and after adjustment to HK\$303.2 million and HK\$311.2 million, respectively, in the first half of 2023.

Revenue by end-market

The Group sells its products to worldwide customers in diversified end-markets. During the Period, the aerospace, energy and medical end-markets experienced a strong growth, with revenue significantly increased to HK\$319.8 million, representing a year-on-year increase of 67.3%. The increase was mainly attributable to the recovery of global aerospace market, increased market share and the development and mass production of new products, coupled with significant increase in the sales revenue of aerospace and energy end-markets in the first half of this year driven by the strong sales growth of Foshan Ameriforge acquired by the Group last year. Sales in the energy end-market surged by 230.5%, mainly driven by the Foshan Ameriforge business acquired by the Group last year; and sales in the medical end-market decreased as a result of the inventory management strategy by certain major customers. In addition, the Group reviewed the final product application scenarios of certain aerospace and medical customers and reclassified sales to others diversified industrials end-markets in a first half of this year, corresponding data for the first half of 2022 have also been reclassified.

CHAIRMAN'S STATEMENT

In addition, the diversified industrials business also maintained a solid growth. During the Period, revenue from this segment increased by 10.5% year-on-year to HK\$1,184.1 million. Among which, revenue from construction equipment, high horsepower engine and agricultural equipment end-markets increased by 27.7%, 20.7% and 16.3% year-on-year, respectively, to HK\$402.2 million, HK\$251.8 million and HK\$206.0 million, respectively. The high horsepower engine end-market mainly benefited from the increasing demand for large power equipment, while the increase in revenue from construction equipment and agricultural equipment end-markets was mainly attributable to the hydraulic orbital motor business acquired by the Group in the second half of last year as well as the increasing demand for construction equipment in the United States. These factors were sufficient to offset the impact brought by the lower demand for construction equipment in China in the first half of this year.

The overall demand from the European and American automotive markets increased steadily this year, but due to the impact caused by the slowdown of the PRC's economy and the fire incident in early June last year in Nantong plant, which mainly serves the automotive market in Mainland China, the performance of the passenger car end-market was under pressure in the first half of this year, with sales revenue decreased by 11.2% as compared to the same period last year. However, the commercial vehicle end-market benefited from the continuous growth of US and European market demand, which drove the sales revenue of commercial vehicles to increase by 5.5% during the Period.

By End-market	Six months ended 30 June					
	2023		2022		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Diversified Industrials	1,184.1	49.3%	1,071.8	48.9%	112.3	10.5%
– Construction Equipment	402.2	16.7%	314.9	14.3%	87.3	27.7%
– High Horsepower Engine	251.8	10.5%	208.6	9.5%	43.2	20.7%
– Agricultural Equipment	206.0	8.6%	177.2	8.1%	28.8	16.3%
– Recreational Boat and Vehicle	123.9	5.2%	126.5	5.8%	(2.6)	-2.1%
– Others	200.2	8.3%	244.6	11.2%	(44.4)	-18.2%
Automotive	900.9	37.5%	929.7	42.4%	(28.8)	-3.1%
– Commercial Vehicle	477.9	19.9%	453.2	20.7%	24.7	5.5%
– Passenger Car	423.0	17.6%	476.5	21.7%	(53.5)	-11.2%
Aerospace, Energy & Medical	319.8	13.2%	191.2	8.7%	128.6	67.3%
– Aerospace	188.9	7.8%	113.0	5.1%	75.9	67.2%
– Energy	80.3	3.3%	24.3	1.1%	56.0	230.5%
– Medical	50.6	2.1%	53.9	2.5%	(3.3)	-6.1%
Total	2,404.8	100.0%	2,192.7	100.0%	212.1	9.7%

In local currencies, the revenue of the Group for the Period increased by 11.0% as compared to the six months ended 30 June 2022. This growth rate is higher than the reported revenue growth rate due to the 6.2% depreciation of RMB against Hong Kong dollars for the six months ended 30 June 2023 as compared to the same period last year.

Revenue by business segment

In terms of business segments, benefiting from the sales growth contributed by the hydraulic orbital motor business acquired by the Group in the second half of last year and driven by the increasing demand from customers of precision machining plants in Mexico and Turkey, the precision machining and other business recorded a substantial growth of 25.7%. The sand casting business also achieved a 14.0% growth, which was primarily attributable to the increase in demand from customers of high horsepower engines, especially those in the Americas and Europe. The customer demand in the aerospace and automotive end-markets drove up the sales of investment casting, which was partially offset by lower customer demand in the diversified industrials market. Affected by the fire incident in Nantong plant in early June last year, the Group's revenue from the surface treatment business decreased by 77.8% year-on-year in the first half of this year.

By Business Segment	Six months ended 30 June					
	2023		2022		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Investment casting	994.9	41.4%	933.8	42.6%	61.1	6.5%
Precision machining and others	948.7	39.5%	754.8	34.4%	193.9	25.7%
Sand casting	433.8	18.0%	380.6	17.4%	53.2	14.0%
Surface treatment	27.4	1.1%	123.5	5.6%	(96.1)	-77.8%
Total	2,404.8	100%	2,192.7	100.0%	212.1	9.7%

Revenue by geographical market

In the first half of this year, the Group's revenue growth in Europe was the strongest, with an increase of 17.5%, while the revenue in the Americas also recorded a growth of 9.0%. In Asia, the revenue flattened out year on year, among which the revenue from the PRC region declined by 2.8%, primarily due to the fire incident in Nantong plant in early June last year and the slowdown of the PRC's economy.

By Geographical Market	Six months ended 30 June					
	2023		2022		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Americas	1,140.5	47.4%	1,046.4	47.7%	94.1	9.0%
– United States	1,023.3	42.5%	963.1	43.9%	60.2	6.3%
– Others	117.2	4.9%	83.3	3.8%	33.9	40.7%
Europe	790.1	32.9%	672.2	30.7%	117.9	17.5%
Asia	474.2	19.7%	474.1	21.6%	0.1	0.0%
– PRC	405.6	16.9%	417.3	19.0%	(11.7)	-2.8%
– Others	68.6	2.8%	56.8	2.6%	11.8	20.8%
Total	2,404.8	100.0%	2,192.7	100.0%	212.1	9.7%

CHAIRMAN'S STATEMENT

CORPORATE DEVELOPMENT AND STRATEGY

Ushering in 2023 where the opportunities arising from post-pandemic recovery co-exist with macroeconomic challenges, Impro continued to pursue its effective strategies of “Global Footprint” and “Diversified End-markets”, and made use of its production and service facilities throughout Asia, Europe and the Americas to hedge against the cycles and potential risks in different end-markets. As such, the Group’s results achieved a satisfactory growth during the Period. In addition, the receivables turnover and inventory turnover of the Group improved significantly, which effectively reduced its demand for working capital, resulting in increase in operating cash flow of 52.9% to HK\$677.5 million.

With a total of 21 plants in the PRC, Germany, Turkey, Czech Republic and Mexico, Impro follows the strategies of “Region for Region Manufacturing” and “Dual Source Production” to help customers minimize potential supply chain and tariff risks in a complex and volatile geopolitical environment. The Mexico SLP campus, which serves the North American market, has a total of five plants, of which the precision machining plant, sand casting plant and investment casting plant have already commenced production. The remaining aerospace component plant and surface treatment plant are also under construction, and are expected to complete equipment installation in 2023 and put into production in 2024. By then, the Group will be able to fully utilize the unique advantages of the manufacturing base to provide more convenient services to the local customers, enabling the Group to enjoy a balanced and stable globalized footprint.

As the global economy emerges from the haze of the COVID-19 pandemic, a number of end-markets have gradually recovered, among which the aerospace and energy end-markets have rebounded with particularly strong momentum, further highlighting the Group’s vision and advantages in strengthening its presence in the aerospace industry. The aerospace end-market is one of the long-term strategic development directions of Impro. In 2022, the Group acquired Foshan Ameriforge, a manufacturer of aerospace and energy components, and its order book has grown strongly since the acquisition, contributing significantly to the Group’s revenue generated from the aerospace and energy end-markets business. The acquisition also enabled the Group to deepen its cooperation with aerospace and energy end-markets customers globally and to capitalize on the business opportunities brought about by the surging demand for these end-markets in the post-pandemic period.

During the COVID-19 pandemic, Impro has identified the development opportunity of the aerospace end-market and proactively established the “Aerotek Business Unit” to prepare for recovery. As the international aerospace market has fully resumed its normal operation and the number of competitors in the aerospace supply chain has greatly reduced, it is believed that the Group will be able to fully seize the recovery opportunity and sustain the significant growth of the aerospace end-market business. To promote the rapid development of the “Aerotek Business Unit”, the Group is looking for suitable intermediaries to evaluate and define the business scope of the “Aerotek Business Unit”, and plans to explore the feasibility of spin-off and independent listing and the relevant pros and cons to the Group when its business development becomes more mature. The Company will make separate announcements in compliance with the Listing Rules as and when applicable and appropriate.

In terms of diversified industrials end-markets, a number of factors such as global food shortages and infrastructure policies of the US government continued to drive the demand for related equipment, which contributed to the significant growth in the revenue of the construction equipment, high horsepower engine, and agricultural equipment during the Period. In view of this, the Group has endeavored to expand its industrials end-market business in various aspects in recent years. For example, in 2022, the Group acquired the research and development, manufacturing, distribution and sales business of hydraulic orbital motor from Danfoss Jiangsu, which has not only further improved the sales network and supply chain management of the Group, but also established the hydraulic and fluid industry as a key direction for the Group’s future development.



In addition, the changes of the automotive end-market were favorable to the Group's business. Demand for commercial vehicles continued to rise steadily, mainly due to the increase in emission reduction requirements for commercial vehicles in various countries, creating more room for the market to grow. As for passenger cars, although the overall demand for some internal combustion engine related parts and components has been under pressure due to the increasing popularity of electric vehicles, the Group's high-quality and value-for-money products have continued to be coveted by customers. The Group will flexibly deploy its resources to capitalize on the recovery in the automotive end-market, which is expected to see steady sales growth.

Since the fire incident in Nantong plant in the PRC in early June last year, the Group has been maintaining close communication with all of its stakeholders, including customers, suppliers and government authorities, to properly handle the aftermath of the fire incident and actively follow up with the insurance company to settle the claims. During the Period, the Group received insurance claim payments amounting to HK\$12.4 million. Together with the amount of HK\$13.3 million received at the end of 2022, the Group has received insurance claim payments in a total sum of HK\$25.7 million, and is negotiating with the insurance company for the remaining insurance claims. The plant involved is currently undergoing repairs and is expected to gradually resume production in the fourth quarter of 2023. Meanwhile, the plant has been renamed as "Impro Aerotek (Nantong) Limited" and its scope of business has been adjusted so that it will focus on the production of aerospace and energy components in the future while retaining part of its surface treatment business.

OUTLOOK

Looking forward to the second half of 2023, the global economy will remain exposed to a number of uncertainties. Demand in the European and American markets became volatile since the second quarter of 2023 due to high inflation, high interest rate and the ongoing Russia-Ukraine war, while the slowdown in the recovery of China's market put the Group's business under pressure. Fortunately, credit to the success of its strategies of "Global Footprint" and "Diversified End-markets", the Group was able to diversify its business and effectively protect itself against related risks. It is expected that the aerospace and energy end-markets will maintain robust growth, and there will be more new products under development in the medical end-market. In the passenger car and diversified industrials end-markets, there will also be promising new projects in the pipeline. Overall, despite the uncertain market environment, with its strong operation resilience and unique advantages, the Group remains confident in maintaining satisfactory growth in its business prospects. Yet, it will remain cautious about certain end-markets around the world. As of July 31, 2023, the Group's total order on hand to be fulfilled in the next twelve months reached HK\$4,046 million, representing a year-on-year increase of 11.4%.

Looking ahead, the Group will continue to leverage its manufacturing and sales network in Asia, Europe and the Americas and, continue to expand its core businesses. Efforts will be made to capture market development opportunities and address challenges through the strategies of "Global Footprint", "Diversified End-markets" and "Twin Growth Engine". In addition, the Group will explore acquisition targets that can create synergy in an effort to expand its business. Apart from consolidating its leading position, the Group will also strive to provide customers with high-quality and diversified products and services and bring desirable returns to its Shareholders.

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, 8 August 2023

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

HK\$ million	Six months ended 30 June		Change
	2023	2022	
Revenue	2,404.8	2,192.7	9.7%
Gross profit	624.1	643.3	-3.0%
<i>Gross profit margin</i>	26.0%	29.3%	-3.3%
Other revenue	14.8	12.6	17.5%
Other net income/(loss)	25.7	(49.6)	-151.8%
Selling and distribution expenses	(83.9)	(103.3)	-18.8%
<i>As a % of revenue</i>	3.5%	4.7%	-1.2%
Administrative and other operating expenses	(156.1)	(153.5)	1.7%
<i>As a % of revenue</i>	6.5%	7.0%	-0.5%
Profit from operation	424.6	349.5	21.5%
<i>Operating margin</i>	17.7%	15.9%	1.8%
Net finance expenses	(50.4)	(18.6)	171.0%
Profit before taxation	374.2	330.9	13.1%
Income tax	(70.7)	(62.9)	12.4%
<i>Effective tax rate</i>	18.9%	19.0%	-0.1%
Profit for the period	303.5	268.0	13.2%
<i>Net margin</i>	12.6%	12.2%	0.4%
Profit attributable to:			
Equity shareholders of the Company	303.2	267.7	13.3%
Non-controlling interest	0.3	0.3	0.0%
	303.5	268.0	13.2%

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2023 increased by 9.7% compared to last corresponding period to HK\$2,404.8 million.

Gross profit and gross profit margin

The Group's gross profit decreased by HK\$19.2 million, or 3.0% to HK\$624.1 million for the six months ended 30 June 2023 as compared to HK\$643.3 million for the six months ended 30 June 2022. The gross profit of investment casting has experienced an increase of HK\$36.2 million, or 13.0% to HK\$315.6 million during the Period, mainly due to strong aerospace, energy and industrial & others sales attained in Europe and Americas region. The gross profit of the precision machining and other business increased HK\$5.5 million, or 2.6% to HK\$217.2 million due to gross profit contribution from the hydraulic orbital motor business acquired by the Group in October 2022 and higher gross profit from Mexico precision machining plant, partially offset by the decline of gross profit of China and Turkey precision machining plants. The gross profit of sand casting plants also decreased by HK\$24.7 million to HK\$91.1 million during the Period mainly as a result of the gross loss reported in Mexico sand casting plants due to lower than expected ramp up of revenue and appreciation of Mexican peso, partly offset by the continuing growth in profit in China sand casting plant. Surface treatment business reported a 99.2% drop in gross profit to HK\$0.3 million mainly as a result of the fire incident in Nantong plant in early June 2022.

The Group's gross profit margin was 26.0% for the six months ended 30 June 2023, compared to 29.3% in the last corresponding period. The decrease in gross profit margin was mainly attributable to significant lower profit reported in the surface treatment business, lower than expected ramp up of revenue of Mexico plants and unfavorable Mexican currency movement, and lower gross profit of China and Turkey precision machining plants.

Other revenue

The Group's other revenue during the six months ended 30 June 2023 increased by HK\$2.2 million to HK\$14.8 million (six months ended 30 June 2022: HK\$12.6 million). Other revenue mainly represented various discretionary incentives from the local PRC governments in relation to technology development and other incentive programs.

Other net income/(loss)

The Group recorded other net income of HK\$25.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: other net loss of HK\$49.6 million). Other net income mainly represented net foreign exchange gain of HK\$15.4 million mainly due to devaluation of RMB against Hong Kong Dollars, and insurance compensation of HK\$12.4 million received from the Nantong fire incident during the Period. In the corresponding period in 2022, the net loss mainly represented the impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident of HK\$93.7 million, gain on disposal of a Germany plant's land, property and machinery of HK\$18.3 million and net foreign exchange gain of HK\$25.5 million arising mainly from the devaluation of RMB against Hong Kong Dollars.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by HK\$19.4 million or 18.8% to HK\$83.9 million for the six months ended 30 June 2023. Selling and distribution expenses decreased was mainly caused by the significant decline in ocean freight rates during the Period. Selling and distribution expenses to revenue ratio was 3.5% for the Period (six months ended 30 June 2022: 4.7%).

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other operating expenses

The Group's administrative and other operating expenses increased by HK\$2.6 million, or 1.7%, to HK\$156.1 million for the six months ended 30 June 2023, as compared to HK\$153.5 million for the last corresponding period. The increase was mainly attributable to the consolidation of Foshan Ameriforge and hydraulic orbital motor business acquired by the Group in second half of last year. Administrative and other operating expenses to revenue rate was 6.5% for the Period (six months ended 30 June 2022: 7.0%).

Net finance costs

The Group's net finance costs increased substantially to HK\$50.4 million for the six months ended 30 June 2023 from HK\$18.6 million for the last corresponding period. The increase was mainly due to increase in the average bank loan balance and a much higher U.S. and HK dollar borrowing rate during the Period.

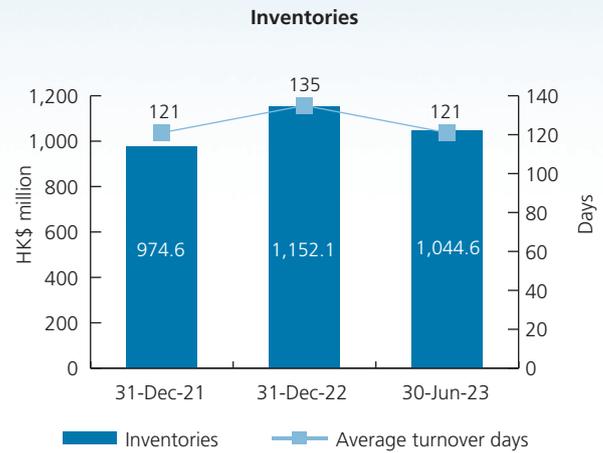
Income tax

The Group's income tax expense increased to HK\$70.7 million for the six months ended 30 June 2023 from HK\$62.9 million for the last corresponding period. A higher income tax expenses during the Period was mainly due higher reported profit during the Period.

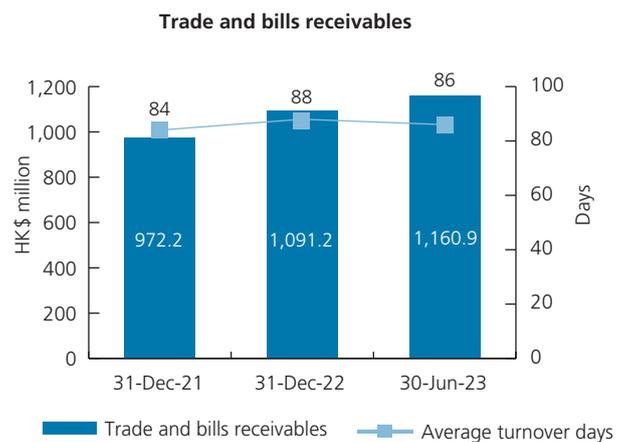
Working Capital

HK\$ million	As at 30 June 2023	As at 31 December 2022
Inventories	1,044.6	1,152.1
Trade and bills receivables	1,160.9	1,091.2
Prepayments, deposits and other receivables	231.3	219.2
Trade payables	(488.7)	(457.8)
Other payables and accruals	(293.9)	(303.1)
Deferred income	(129.9)	(129.4)
Defined benefit retirement benefits obligations	(51.8)	(67.3)
	1,472.5	1,504.9

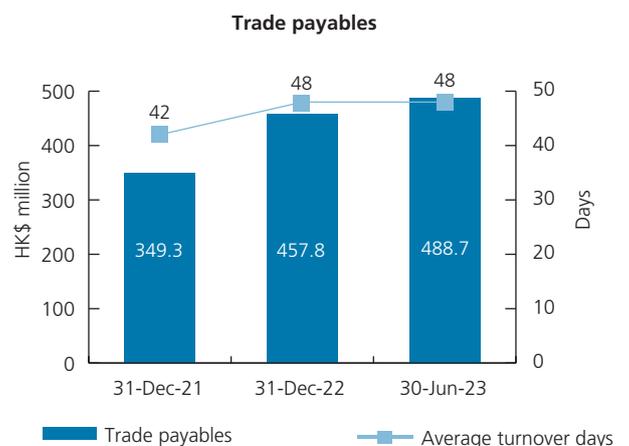
Inventories decreased HK\$107.5 million to HK\$1,044.6 million as of 30 June 2023 (31 December 2022: HK\$1,152.1 million) mainly due to tightening of inventory management in view of softening of customers' demand in certain end-markets during the Period. Inventory turnover days decreased 14 days to 121 days as at 30 June 2023 from 135 days as at 31 December 2022.



Trade and bills receivables increased HK\$69.7 million to HK\$1,160.9 million as of 30 June 2023 (31 December 2022: HK\$1,091.2 million) due to increase in sales. Trade receivable turnover days decreased 2 days from 88 days as at 31 December 2022 to 86 days as at 30 June 2023, mainly due to overall tightening of credit control and certain long overdue receivables of Nantong plant have been collected by 30 June 2023. The management of the Group is 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 30 June 2023, current receivables and overdue balances of less than 30 days has improved to 92.4% (31 December 2022: 90.4%) of the balance of the gross trade and bills receivables.



Trade payables increased HK\$30.9 million to HK\$488.7 million as of 30 June 2023 (31 December 2022: HK\$457.8 million). The increase was mainly due to increase in purchases which was consistent with the business growth during the Period. Trade payable turnover days as at 30 June 2023 maintained at 48 days as compared to 31 December 2022.



MANAGEMENT DISCUSSION AND ANALYSIS

EBITDA and net profit

The Group's EBITDA (earnings before interest, taxation, depreciation and amortization) during the Period was HK\$671.0 million, or EBITDA margin of 27.9%, as compared to HK\$563.1 million, or EBITDA margin of 25.7% in last corresponding period. Profit attributable to equity shareholders of the Company was HK\$303.2 million, as compared to HK\$267.7 million from last corresponding period. Net profit margin for the Period was 12.6%, as compared to 12.2% in last corresponding period.

Excluding the impact of impairment loss provision of property, plant and equipment & inventories and net of insurance compensation received as a result of Nantong fire incident and gain on disposal of a Germany plant's land, property and machinery, the Group's adjusted EBITDA margin was 27.4%, which was 1.7% lower than 29.1% attained in last corresponding period, and the adjusted profit attributable to shareholders was HK\$311.2 million for the six months ended 30 June 2023, a decrease of 7.1% as compared to HK\$335.0 million in last corresponding period. Adjusted net profit margin was 13.0% for the six months ended 30 June 2023, as compared to 15.3% attained in last corresponding period.

Financial resources and liquidity

As at 30 June 2023, the total assets of the Group increased by 4.9% to HK\$8,144.4 million and shareholders' equity increased by 6.7% to HK\$4,693.1 million as compared to the amount as at 31 December 2022. The increase in total assets was mainly attributable to the addition in construction in progress and property, plant and equipment as the Group continued its investment in plants construction in Mexico. The Group's current ratio as at 30 June 2023 was 1.55, slightly lower than 1.63 as at 31 December 2022.

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 which are financed by the Group's internal working capital as well as the bank loans facilities from various banks.

The table below sets forth a condensed consolidated cash flow statement for the Group for the periods indicated:

	Six months ended 30 June	
	2023 HK\$ million	2022 HK\$ million
Cash generated from/(used in):		
Operating activities	677.5	443.0
Investing activities	(402.6)	(434.4)
Financing activities	(148.0)	191.4
Net movement in cash	126.9	200.0

Cash flows generated from operating activities was HK\$677.5 million, representing an increase of HK\$234.5 million compared to HK\$443.0 million in the last corresponding period. The increase in cash flows from operating activities was mainly due to increase in profits during the Period in addition to effective inventory turnover but partially offset by higher working capital on trade and bills receivables.

Cash flows used in investing activities was HK\$402.6 million, representing a decrease of HK\$31.8 million compared to HK\$434.4 million in the last corresponding period. The major items on investing activities were payment of capital expenditure which include purchases of machinery, equipment, tooling and infrastructure amounted to HK\$373.8 million.

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

	Six months ended 30 June	
	2023 HK\$ million	2022 HK\$ million
Payment of property, plant and equipment	(373.8)	(420.4)
Payment for deferred expenses	(38.4)	(40.2)
Others	9.6	26.2
Net cash used in investing activities	(402.6)	(434.4)

Cash flows used in financing activities was HK\$148.0 million, compared to cash flows generated from financing activities of HK\$191.4 million in last corresponding period. Major movements during the Period mainly involved the proceeds from bank loans of HK\$673.4 million, repayment of bank borrowings of HK\$607.2 million and second interim dividend payment in 2022 of HK\$150.8 million.

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

	Six months ended 30 June	
	2023 HK\$ million	2022 HK\$ million
Proceeds from bank loans	673.4	876.7
Repayment of bank loans	(607.2)	(524.1)
Lease rentals paid	(7.2)	(5.2)
Dividend paid	(150.8)	(135.6)
Interest paid	(56.8)	(20.4)
Proceeds from exercise of share options	0.6	–
Net cash (used in)/generated from financing activities	(148.0)	191.4

MANAGEMENT DISCUSSION AND ANALYSIS

Indebtedness

As at 30 June 2023, the Group's total borrowings was HK\$2,253.3 million, representing an increase of HK\$47.4 million from HK\$2,205.9 million as at 31 December 2022. The increase in borrowings was due to capital expenditure during the Period.

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

	As at 30 June 2023 HK\$ million	As at 31 December 2022 HK\$ million
Current bank loans	1,051.6	942.4
Non-current bank loans	1,184.1	1,244.2
Current lease liabilities	10.4	14.4
Non-current lease liabilities	7.2	4.9
Total borrowings	2,253.3	2,205.9

As at 30 June 2023, the Group had total banking facilities available for draw-down of HK\$1,040.0 million.

The Group's net gearing ratio as at 30 June 2023 was 35.0% (31 December 2022: 39.2%). This ratio is based on total borrowings less cash and cash equivalents and pledged deposits divided by total equity. The decrease in gearing ratio during the Period was mainly due to repayment of bank borrowing and stronger cash position.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. Capital expenditures of the Group amounted to HK\$382.8 million for the six months ended 30 June 2023 which was primarily used in the production capacity expansion in the PRC and Turkey plants, as well as the infrastructure and machinery spending for the new plants in Mexico. Among which, the Group incurred HK\$182.9 million for the construction 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 30 June 2023 amounted to HK\$333.6 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 as at 30 June 2023.

Contingent Liabilities

No material contingent liability existed as at 30 June 2023.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the Company's prospectus dated 18 June 2019 issued for the Global Offering and in the Chairman's Statement, 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 six months ended 30 June 2023.

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 members of the Group with minimised amount of financial cost.

The Group's revenue was mainly denominated in US dollar, Euro dollar and RMB while most of the cost of sales is denominated in RMB, Turkish lira, Euro dollar and Mexican peso. As a result, exchange rate fluctuations between US dollar, Euro dollar, RMB, Turkish lira and Mexican peso against Hong Kong dollar could affect the Group's performance and asset value in the reporting currency of Hong Kong dollar.

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 reduce the impact of exchange rate fluctuations. As at 30 June 2023, the borrowings of the Group were denominated in Hong Kong dollar, US dollar, RMB and Euro dollar, in which, HK\$665.6 million of borrowings were at fixed interest rates.

During the six months ended 30 June 2023, the Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations, and the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 30 June 2023, the Group had 7,858 full-time employees of whom 6,057 were from the Mainland China and 1,801 were from Turkey, Germany, Mexico, Hong Kong, United states, and other countries. Total staff costs, including the emoluments of the Directors, amounted to HK\$594.8 million for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$571.5 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 the 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 options may be provided to selected employees taking into consideration the Group's performance and the performance of the individual employee.

The Group adopted a pre-IPO share option scheme ("Pre-IPO Share Option Scheme") for its employees.

FURTHER INFORMATION ON THE GROUP

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Taking into consideration the profitability of the Group and the financial resources required for business expansion, the Board has resolved to declare an interim dividend of 8.0 HK cents per Share (six months ended 30 June 2022: 8.0 HK cents per Share) for the six months ended 30 June 2023 in the total amount of approximately HK\$150.8 million (six months ended 30 June 2022: HK\$150.7 million). Relevant dates for interim dividend payment are set out below.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	21 August 2023
Closure of register of members	23 August to 25 August 2023 (both days inclusive)
Record date	25 August 2023
Dividend payment date	on or before 6 September 2023

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration by 4:30 p.m. on Tuesday, 22 August 2023.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the basis of the Company's corporate governance practices with effect from the date of the Listing.

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 six months ended 30 June 2023, 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 is the chairman of the Board and the chief executive officer of the Group. Since the founding of the Group in 1998, Mr. LU has been responsible for formulating the overall business development strategies and leading the overall operations of the Group, and therefore has been instrumental to the growth and business expansion of the Group. Mr. LU's vision and leadership have played a pivotal role in the Group's success and achievements to date, and therefore the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The long-serving and outstanding senior management team and the Board, which comprise experienced and high-caliber individuals, provide a check on balance of power and authority. The 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.

The Board has established an audit committee, a nomination committee, a remuneration committee and a sustainability committee, each with defined terms of reference which are no less exacting than those set out in the CG Code.

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 six months ended 30 June 2023.

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

As of 30 June 2023, 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 Securities and Futures Ordinance (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, 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	Approximate percentage of the Company's issued share capital
Mr. LU Ruibo ("Mr. LU")	Interest in a controlled corporation ⁽¹⁾	1,293,118,787	68.62
	Spouse interest ⁽²⁾	1,000,000	0.05
	Beneficial owner	9,239,000	0.49
Ms. WANG Hui, Ina ("Ms. WANG")	Beneficial owner ⁽²⁾	1,000,000	0.05
	Spouse interest ⁽³⁾	1,302,357,787	69.11
Mr. YU Yuepeng	Beneficial owner ⁽⁴⁾	1,000,000	0.05
Ms. ZHU Liwei	Beneficial owner ⁽⁵⁾	1,000,000	0.05
Mr. WANG Dong	Beneficial owner ⁽⁶⁾	971,000	0.05

FURTHER INFORMATION ON THE GROUP

(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 1,293,118,787 Shares held by Impro Development under the SFO.
- (2) Ms. WANG was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. No option has been exercised during the six months ended 30 June 2023.
- (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 was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. No option has been exercised during the six months ended 30 June 2023.
- (5) Ms. ZHU Liwei was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. No option has been exercised during the six months ended 30 June 2023.
- (6) Mr. WANG Dong was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022, and options representing 29,000 Shares were exercised during the six months ended 30 June 2023.

Save as disclosed above, as at 30 June 2023, 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 Share and debentures of the Company and any of its 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 SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 30 June 2023, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled company) 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	Approximate percentage of the Company's issued share capital
Impro Development	Beneficial owner	1,293,118,787	68.62
Mr. LU	Interest in a controlled corporation and beneficial owner	1,302,357,787	69.11
	Spouse Interest	1,000,000	0.05
GT Cedar Capital (Hong Kong) Limited ("GT Cedar") ⁽¹⁾	Beneficial owner	104,205,123	5.53
Genertec Investment Management Co. Ltd. ⁽²⁾	Interest in a controlled corporation	104,205,123	5.53
Genertec Capital Company Limited ⁽²⁾	Interest in a controlled corporation	104,205,123	5.53
China General Technology (Group) Holding Company Limited ⁽²⁾	Interest in a controlled corporation	104,205,123	5.53

Notes:

- (1) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.
- (2) GT Cedar is owned as to 80% by Genertec Investment Management Co., Ltd. Genertec Investment Management Co. Ltd. is owned as to 99.7% by Genertec Capital Company Limited, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd., Genertec Capital Company Limited and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares held by GT Cedar.

FURTHER INFORMATION ON THE GROUP

Save as disclosed above, as at 30 June 2023, 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 SCHEMES

On 15 June 2018, the Company adopted the Pre-IPO Share Option Scheme and a post-IPO share option scheme (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 30 June 2023, the Company had granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and no option had been 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 the Group with an opportunity to enjoy its 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:

- the subscription price per Share under the Pre-IPO Share Option Scheme shall represent 20% discount to the Offer Price.
- save for the options which have been granted, no further options will be offered or granted under the Pre-IPO Share Option Scheme, 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 six months ended 30 June 2023:

Grantees	Date of grant	Exercise price per option	Exercise period	Number of options ⁽¹⁾				
				Outstanding as of 1 January 2023	Granted during the period	Exercised during the period	Expired or forfeited during the period	Outstanding as of 30 June 2023
Directors								
Ms. WANG Hui, Ina	28/6/2019 ⁽²⁾	HK\$2.4	29/06/2022–25/12/2024	1,000,000	–	–	–	1,000,000
Mr. YU Yuepeng	28/6/2019 ⁽²⁾	HK\$2.4	29/06/2022–25/12/2024	1,000,000	–	–	–	1,000,000
Ms. ZHU Liwei	28/6/2019 ⁽²⁾	HK\$2.4	29/06/2022–25/12/2024	1,000,000	–	–	–	1,000,000
Mr. WANG Dong	28/6/2019 ⁽²⁾	HK\$2.4	29/06/2022–25/12/2024	1,000,000	–	(29,000)	–	971,000
Other employees	28/6/2019 ⁽²⁾	HK\$2.4	29/06/2022–25/12/2024	11,724,644	–	(238,000)	(561,642)	10,925,002
				15,724,644	–	(267,000)	(561,642)	14,896,002

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 of the Company on 28 June 2019 (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 561,642 shares have been forfeited during the six months ended 30 June 2023 following the cessation of employment of certain grantees.

The total number of Shares of the Company that would be issued upon the exercise of all outstanding share options as at the date of this report are 13,474,847, which represents approximately 0.7% 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, expired, forfeited or cancelled under the Pre-IPO Share Option Scheme during the six months ended 30 June 2023.

POST-IPO SHARE OPTION SCHEME

The following is a summary of principal terms of the Post-IPO Share Option Scheme conditionally adopted by the Shareholders on June 15, 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 the Company to grant Options (as defined below) to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (a) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the 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 the 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 the Group (the "Employee"); (ii) a director or proposed director (including an independent non-executive director) of any member of the Group; (iii) a direct or indirect shareholder of any member of the Group; (iv) a supplier of goods or services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the 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 the Group; and (vii) an associate of any of the persons referred to in paragraphs (i) to (iii) above.

FURTHER INFORMATION ON THE GROUP

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, expired, forfeited 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 Option 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 Hong Kong Stock Exchange's daily quotations sheet on the date of grant; and (iii) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the date of grant.



EVENTS AFTER THE END OF REPORTING PERIOD

Save for the interim dividend as disclosed in the paragraphs under “interim dividend and closure of register of members”, no other material events affecting any member of the Group occurred after the end of the reporting period up to the date of this interim report.

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE

There has been no change in the information of the Directors and chief executive required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Period.

REVIEW OF THE INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2023. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company with senior management members and the external auditor of the Company.

The unaudited interim financial report of the Group for the six months ended 30 June 2023 has also been reviewed by the Company’s external auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants.

INDEPENDENT REVIEW REPORT

Review report to the board of directors of Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 29 to 54 which comprises the consolidated statement of financial position of Impro Precision Industries Limited (the "Company") as of 30 June 2023 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2023 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

8 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Revenue	4	2,404,843	2,192,744
Cost of sales		(1,780,680)	(1,549,405)
Gross profit		624,163	643,339
Other revenue	5(a)	14,773	12,624
Other net income/(loss)	5(b)	25,700	(49,597)
Selling and distribution expenses		(83,934)	(103,327)
Administrative and other operating expenses		(156,144)	(153,515)
Profit from operations		424,558	349,524
Net finance costs	6(a)	(50,401)	(18,627)
Profit before taxation	6	374,157	330,897
Income tax	7	(70,666)	(62,870)
Profit for the period		303,491	268,027
Attributable to:			
Equity shareholders of the Company		303,233	267,721
Non-controlling interest		258	306
Profit for the period		303,491	268,027
Earnings per share			
Basic (HK cents)	8(a)	16.09	14.22
Diluted (HK cents)	8(b)	16.07	14.22

The notes on pages 36 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 18(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Profit for the period	303,491	268,027
Other comprehensive income for the period (after tax adjustments)		
<i>Items that will not be reclassified to profit or loss:</i>		
Effect of remeasurement of defined benefit retirement plans obligation	1,541	(67)
Related tax	821	297
<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	138,012	(164,734)
Other comprehensive income for the period (after tax adjustments)	140,374	(164,504)
Total comprehensive income for the period	443,865	103,523
Attributable to:		
Equity shareholders of the Company	444,021	104,117
Non-controlling interest	(156)	(594)
Total comprehensive income for the period	443,865	103,523

The notes on pages 36 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Non-current assets			
Property, plant and equipment	9	4,336,258	4,050,192
Prepayments for purchase of property, plant and equipment		75,263	46,836
Intangible assets		226,174	248,394
Goodwill	10	223,633	230,821
Deferred expenses		156,961	163,268
Other financial asset		1,527	1,576
Deferred tax assets		72,258	69,255
		5,092,074	4,810,342
Current assets			
Inventories	11	1,044,632	1,152,071
Trade and bills receivables	12	1,160,897	1,091,216
Prepayments, deposits and other receivables	13	231,336	219,175
Taxation recoverable		4,944	6,854
Pledged deposits	14(b)	5,423	–
Cash and cash equivalents	14(a)	605,069	483,286
		3,052,301	2,952,602
Current liabilities			
Bank loans	15	1,051,560	942,407
Lease liabilities		10,387	14,368
Trade payables	16	488,676	457,784
Other payables and accruals	17	293,907	303,089
Taxation payable		121,738	94,482
		1,966,268	1,812,130
Net current assets		1,086,033	1,140,472
Total assets less current liabilities		6,178,107	5,950,814

The notes on pages 36 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Non-current liabilities			
Bank loans	15	1,184,134	1,244,237
Lease liabilities		7,265	4,895
Deferred income		129,864	129,430
Defined benefit retirement plans obligation		51,754	67,329
Deferred tax liabilities		111,976	106,926
		1,484,993	1,552,817
NET ASSETS			
		4,693,114	4,397,997
CAPITAL AND RESERVES			
Share capital	18	188,483	188,456
Reserves		4,486,047	4,190,801
Total equity attributable to equity shareholders of the Company		4,674,530	4,379,257
Non-controlling interest		18,584	18,740
TOTAL EQUITY		4,693,114	4,397,997

Approved and authorized for issue by the board of directors on 8 August 2023.

Lu Ruibo

Directors

Wang Hui, Ina

The notes on pages 36 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interest	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note										
Balance at 1 January 2022		188,330	1,430,278	19,144	241,084	34,287	(571)	2,443,497	4,356,049	23,332	4,379,381
Changes in equity for the six months ended 30 June 2022:											
Profit for the period		-	-	-	-	-	-	267,721	267,721	306	268,027
Other comprehensive income		-	-	-	-	(163,834)	-	230	(163,604)	(900)	(164,504)
Total comprehensive income		-	-	-	-	(163,834)	-	267,951	104,117	(594)	103,523
Appropriation of dividends	18(a)	-	-	-	-	-	-	(135,597)	(135,597)	-	(135,597)
Equity settled share-based transactions	18(b)	-	-	2,511	-	-	-	-	2,511	-	2,511
Balance at 30 June 2022 and 1 July 2022		188,330	1,430,278	21,655	241,084	(129,547)	(571)	2,575,851	4,327,080	22,738	4,349,818
Changes in equity for the six months ended 31 December 2022:											
Profit for the period		-	-	-	-	-	-	314,224	314,224	529	314,753
Other comprehensive income		-	-	-	-	(105,383)	-	(10,280)	(115,663)	(702)	(116,365)
Total comprehensive income		-	-	-	-	(105,383)	-	303,944	198,561	(173)	198,388
Appropriation of dividends	18(a)	-	-	-	-	-	-	(150,664)	(150,664)	-	(150,664)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	(3,825)	(3,825)
Exercise of share options		126	4,178	(1,270)	-	-	-	-	3,034	-	3,034
Expiry of share options		-	-	(6,634)	-	-	-	6,634	-	-	-
Appropriation of reserve		-	-	-	18,995	-	-	(18,995)	-	-	-
Equity settled share-based transactions	18(b)	-	-	1,246	-	-	-	-	1,246	-	1,246
Balance at 31 December 2022		188,456	1,434,456	14,997	260,079	(234,930)	(571)	2,716,770	4,379,257	18,740	4,397,997

The notes on pages 36 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
		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
	Note										
Balance at 1 January 2023		188,456	1,434,456	14,997	260,079	(234,930)	(571)	2,716,770	4,379,257	18,740	4,397,997
Changes in equity for the six months ended 30 June 2023:											
Profit for the period		-	-	-	-	-	-	303,233	303,233	258	303,491
Other comprehensive income		-	-	-	-	138,426	-	2,362	140,788	(414)	140,374
Total comprehensive income		-	-	-	-	138,426	-	305,595	444,021	(156)	443,865
Appropriation of dividends	18(a)	-	-	-	-	-	-	(150,765)	(150,765)	-	(150,765)
Exercise of share options	18(b)	27	912	(298)	-	-	-	-	641	-	641
Equity settled share-based transactions	18(b)	-	-	1,376	-	-	-	-	1,376	-	1,376
Balance at 30 June 2023		188,483	1,435,368	16,075	260,079	(96,504)	(571)	2,871,600	4,674,530	18,584	4,693,114

The notes on pages 36 to 54 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Operating activities			
Cash generated from operations		718,749	500,909
Tax paid		(41,249)	(57,873)
Net cash generated from operating activities		677,500	443,036
Investing activities			
Payment for the acquisition of property, plant and equipment		(373,811)	(420,369)
Payment for deferred expenses		(38,374)	(40,170)
Other cash flows arising from investing activities		9,630	26,093
Net cash used in investing activities		(402,555)	(434,446)
Financing activities			
Proceeds from bank loans		673,392	876,756
Repayment of bank loans		(607,221)	(524,131)
Interest paid		(56,845)	(20,390)
Capital element of lease rentals paid		(6,787)	(4,852)
Interest element of lease rentals paid		(387)	(357)
Proceeds from exercise of share options		641	–
Dividends paid to equity shareholders of the Company	18(a)	(150,765)	(135,597)
Net cash (used in)/generated from financing activities		(147,972)	191,429
Increase in cash and cash equivalents		126,973	200,019
Cash and cash equivalents at 1 January	14	483,286	578,964
Effect of foreign exchange rate changes		(5,190)	(27,316)
Cash and cash equivalents at 30 June	14	605,069	751,667

The notes on pages 36 to 54 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

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 BASIS OF PREPARATION

This interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorized for issue on 8 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 28.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following new and amended IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Definition of Accounting Estimates*
- Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to IAS 12, *International Tax Reform — Pillar Two Model Rules*

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism.

None of these developments had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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.

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

Revenue	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Investment casting	994,939	933,832
Precision machining and others	948,746	754,796
Sand casting	433,796	380,608
Surface treatment	27,362	123,508
	2,404,843	2,192,744

The Group's revenue from contracts with customers were recognized at point in time for the six months ended 30 June 2023 and 2022. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

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, diversified industrials, aerospace and medical components.
- Precision machining and others: It uses a computerized power-driven machine tool to drill or shape metal parts with high precision specifications. The main products are automotive, construction equipment and aerospace components, and hydraulic orbital motors.
- 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, anodising, 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, 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 and amortization. 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 and amortization.

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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

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 period is set out below:

	Six months ended 30 June 2023				
	Investment casting HK\$'000	Precision machining and others HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	994,939	948,746	433,796	27,362	2,404,843
Inter-segment revenue	–	–	–	13,092	13,092
Reportable segment revenue	994,939	948,746	433,796	40,454	2,417,935
Gross profit from external customers	315,630	217,209	91,068	256	624,163
Inter-segment gross profit	–	–	–	5,319	5,319
Reportable segment gross profit	315,630	217,209	91,068	5,575	629,482
Depreciation and amortization	79,405	101,979	53,390	11,676	246,450
Reportable segment profit	310,737	228,408	101,927	13,887	654,959

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

	Six months ended 30 June 2022				
	Investment casting HK\$'000	Precision machining and others HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	933,832	754,799	380,608	123,505	2,192,744
Inter-segment revenue	–	–	–	15,406	15,406
Reportable segment revenue	<u>933,832</u>	<u>754,799</u>	<u>380,608</u>	<u>138,911</u>	<u>2,208,150</u>
Gross profit from external customers	279,439	211,694	115,787	36,419	643,339
Inter-segment gross profit	–	–	–	5,272	5,272
Reportable segment gross profit	<u>279,439</u>	<u>211,694</u>	<u>115,787</u>	<u>41,691</u>	<u>648,611</u>
Depreciation and amortization	79,571	73,274	38,924	21,767	213,536
Reportable segment profit	<u>255,836</u>	<u>199,340</u>	<u>112,959</u>	<u>49,727</u>	<u>617,862</u>
	As at 30 June 2023				
	Investment casting HK\$'000	Precision machining and others HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	<u>2,719,326</u>	<u>3,007,189</u>	<u>1,404,265</u>	<u>325,946</u>	<u>7,456,726</u>
	As at 31 December 2022				
	Investment casting HK\$'000	Precision machining and others HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	<u>2,475,570</u>	<u>3,055,511</u>	<u>1,371,609</u>	<u>313,060</u>	<u>7,215,750</u>

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Revenue		
Reportable segment revenue	2,417,935	2,208,150
Elimination of inter-segment revenue	(13,092)	(15,406)
Consolidated revenue	2,404,843	2,192,744
Gross profit		
Reportable segment gross profit	629,482	648,611
Elimination of inter-segment gross profit	(5,319)	(5,272)
Consolidated gross profit	624,163	643,339
Profit		
Reportable segment profit	654,959	617,862
Elimination of inter-segment profit	(5,319)	(5,272)
Reportable segment profit derived from Group's external customers	649,640	612,590
Other revenue	14,773	12,624
Other net income/(loss)	25,700	(49,597)
Unallocated head office and corporate expenses	(19,105)	(12,557)
Consolidated profit before interest, taxes, depreciation and amortization	671,008	563,060
Net finance costs	(50,401)	(18,627)
Depreciation and amortization	(246,450)	(213,536)
Consolidated profit before taxation	374,157	330,897

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(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

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Americas		
— United States of America ("United States")	1,023,291	963,076
— Others	117,235	83,316
Europe	790,159	672,254
Asia		
— The People's Republic of China ("PRC")	405,579	417,316
— Others	68,579	56,782
	2,404,843	2,192,744

Specified non-current assets

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
	United States	14,109
Europe	497,232	505,561
The PRC	2,797,395	2,846,543
Mexico	1,711,080	1,381,207
	5,019,816	4,741,087

5 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

(a) Other revenue

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Rental income	292	76
Government grants	12,694	10,253
Others	1,787	2,295
	14,773	12,624

(b) Other net income/(loss)

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Net exchange gain	15,369	25,544
Net (loss)/gain on disposal of property, plant and equipment	(606)	17,826
Loss on a fire incident	–	(93,697)
Insurance claims (Note)	12,378	–
Others	(1,441)	730
	25,700	(49,597)

Note: Impro Aerotek (Nantong) Limited (formerly known as “Nantong Shenhai Science and Industrial Technology Co., Ltd.”) received partial insurance claims of RMB11,000,000 (equivalent to approximately HK\$12,378,000) in respect of loss on the fire accident during the six months ended 30 June 2023.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Interest income	(6,831)	(1,775)
Interest expenses on bank loans	56,845	20,045
Interest expenses on lease liabilities	387	357
	57,232	20,402
Net finance costs	50,401	18,627

(b) Other items

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Cost of inventories recognized as expenses*	1,780,680	1,549,405
Depreciation charges		
— owned property, plant and equipment	176,824	154,903
— right-of-use assets	14,180	10,296
Amortization of intangible assets	15,803	6,900
Amortization of deferred expenses	39,643	41,437
Research and development expenses	71,489	70,641
Provision/(reversal) of impairment loss on trade receivables	5,340	(1,613)
Provision/(reversal) for write-down of inventories	9,594	(7,059)

* Cost of inventories recognized as expenses includes amounts relating to 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 for each of these types of expenses.

7 INCOME TAX

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Current tax — Mainland China Corporate Income Tax		
— Provision for the period	30,600	16,842
— Bonus deduction of research and development expenses	(10,630)	(8,444)
— Over-provision in respect of prior years	(1,335)	(761)
Current tax — Hong Kong Profits Tax	23,605	29,499
Current tax — Tax jurisdictions outside Mainland China and Hong Kong	20,560	37,331
	62,800	74,467
Deferred taxation	7,866	(11,597)
	70,666	62,870

The provision for Mainland China income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the Mainland China as determined in accordance with the relevant income tax rules and regulations of the Mainland China. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2022: 16.5%) to the six months ended 30 June 2023. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$303,233,000 (six months ended 30 June 2022: HK\$267,721,000) and the weighted average of 1,884,560,975 ordinary shares (2022: 1,883,295,000 shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$303,233,000 (six months ended 30 June 2022: HK\$267,721,000) and the weighted average of 1,886,966,854 ordinary shares (2022: 1,883,295,000 shares).

For the six months ended 30 June 2023 and 2022, the Company has the outstanding share options under the Company's share option scheme as the dilutive potential ordinary shares.

During the six months ended 30 June 2022, the dilutive potential ordinary shares were not included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive. Accordingly, diluted earnings per share was the same as basic earnings per share of the six months ended 30 June 2022.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

9 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2023, the Group entered into a number of new lease agreements for use of property and acquired a parcel of leasehold land in the PRC, and therefore recognized the additions to right-of-use assets of HK\$47,984,000.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2023, the Group acquired items of property, plant and equipment at a cost of HK\$306,380,000 (six months ended 30 June 2022: HK\$353,311,000). Items of property, plant and equipment with a net book value of HK\$5,567,000 were disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$20,328,000), resulting in a loss on disposal of HK\$606,000 (six months ended 30 June 2022: a gain on disposal of HK\$17,826,000).

(c) Impairment losses

During the six months ended 30 June 2023, impairment loss of HK\$nil were made on property, plant and equipment.

During the six months ended 30 June 2022, a number of machines were physically damaged during a fire incident in one of the production buildings of the Group's surface treatment plant. An impairment loss of HK\$79,862,000 was recognized in the "other net income/(loss)".

10 GOODWILL

	HK\$'000
Cost:	
At 1 January 2022	–
Acquisition of business	225,506
Exchange adjustment	5,315
	<hr/>
At 31 December 2022 and 1 January 2023	230,821
Exchange adjustment	(7,188)
	<hr/>
At 30 June 2023	223,633

Accumulated impairment losses:	
At 31 December 2022, 1 January 2023 and 30 June 2023	–

Carrying amount:	
At 30 June 2023	223,633
	<hr/>
At 31 December 2022	230,821
	<hr/>

11 INVENTORIES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Raw materials	301,758	337,005
Work in progress	374,628	392,419
Finished goods	463,415	509,284
	1,139,801	1,238,708
Write down of inventories	(95,169)	(86,637)
	1,044,632	1,152,071

During the six months ended 30 June 2023, the Group provided a write-down of HK\$9,594,000 (six months ended 30 June 2022: reversed a write-down of HK\$7,059,000) against those inventories with net realizable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss.

12 TRADE AND BILLS RECEIVABLES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Trade receivables	1,140,280	1,050,511
Bills receivable	41,020	57,560
	1,181,300	1,108,071
Less: loss allowance	(20,403)	(16,855)
	1,160,897	1,091,216

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

12 TRADE AND BILLS RECEIVABLES (Continued)

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

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Within 1 month	550,157	488,554
1 to 3 months	480,257	420,562
Over 3 months but within 12 months	130,483	182,100
	1,160,897	1,091,216

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

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Prepayments	41,117	44,670
Value added tax recoverable	152,056	141,049
Other deposits and receivables	38,163	33,456
	231,336	219,175

14 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

(a) Cash and cash equivalents comprise:

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Cash at bank	604,893	482,985
Cash on hand	176	301
	605,069	483,286

As of the end of the reporting period, cash and cash equivalents situated in Mainland China amounted to HK\$288,976,000 (2022: HK\$302,813,000). Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control.

(b) Pledged deposits comprise:

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Pledged deposits for letter of guarantee	5,423	–

The pledged bank deposits will be released upon the settlement of the letter of guarantee by the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

15 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 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Short-term bank loans	435,954	375,989
Current portion of long-term bank loans	615,606	566,418
Within 1 year or on demand	1,051,560	942,407
After 1 year but within 2 years	520,356	544,566
After 2 years but within 5 years	663,778	699,671
	1,184,134	1,244,237
	2,235,694	2,186,644

As at 30 June 2023 and 31 December 2022, none of the Group's bank loans were secured.

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 subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. As at 30 June 2023 and 31 December 2022, none of the covenants relating to drawn down facilities had been breached.

16 TRADE PAYABLES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Trade payables	488,676	457,784

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 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Within 1 month	264,290	237,929
1 to 3 months	191,581	197,456
Over 3 months	32,805	22,399
	488,676	457,784

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

17 OTHER PAYABLES AND ACCRUALS

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Other payables (Note)	251,994	255,915
Accrued expenses	41,913	47,174
	293,907	303,089

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

Note:

An analysis of the other payables of the Group is as follows:

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Deferred consideration payable	21,526	22,218
Salaries, wages, bonus and benefits payable	93,614	101,945
Payables for purchase of property, plant and equipment	37,258	44,666
Contract liabilities	22,309	9,627
Other tax payable	27,791	28,713
Maintenance costs payable	5,156	4,851
Freight costs payable	5,938	11,299
Payables for professional services	10,754	5,522
Deposits received	2,299	3,776
Others	25,349	23,298
	251,994	255,915

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Interim dividend declared after the end of each reporting period of HK\$0.08 per share (six months ended 30 June 2022: HK\$0.08 per share)	150,786	150,664

The interim dividend has not been recognized as a liability at the end of each reporting period.

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

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Second interim dividend in respect of the previous financial year, approved and paid during the interim period, of HK\$0.08 per share (six months ended 30 June 2022: HK\$0.072 per share)	150,765	135,597

(b) Equity settled share-based transactions

On 28 June 2019, 30,230,000 share options were granted for consideration of HK\$1.00 each to directors, senior management and employees of the Group in three tranches under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. The tranche of share options vested on 29 June 2022 and were exercised or expired during the year ended 31 December 2022. The tranche of share options vested on 29 June 2023 and are exercisable until 25 December 2023, and the rest tranche of share options will vest on 29 June 2024 and then be exercisable until 25 December 2024. The exercise price is HK\$2.40, being 20% discount to the initial public offering price of the Company's ordinary shares.

During the six months ended 30 June 2023, a total of 267,000 options were exercised to subscribe for a total of 267,000 ordinary shares in the Company at a consideration of HK\$640,800, of which HK\$26,700 was credited to share capital and HK\$614,100 was credited to share premium. HK\$297,400 was transferred from the capital reserve to the share premium account (six months ended 30 June 2022: nil).

When the options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in capital reserve will be transferred to retained profits.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 COMMITMENTS

Capital commitments outstanding at 30 June 2023 not provided for in the interim financial report were as follows:

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Contracted for:	333,584	232,940
Represented by:		
Construction of plants	205,923	60,594
Acquisition of machinery	127,661	172,346
	333,584	232,940

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Pursuant to the board meeting on 8 August 2023, the directors resolved to declare an interim dividend of HK\$0.08 per share. Further details are disclosed in Note 18(a).