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IMPRO PRECISION INDUSTRIES LIMITED

鷹普精密工業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1286)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- Revenue increased to HK\$1,911.1 million – an increase of 2.3% as compared to the last corresponding period, in terms of local currencies, an increase of 6.1% as compared to the last corresponding period
- Gross profit increased to HK\$612.4 million and gross profit margin was 32.0% (31.7% in the last corresponding period)
- EBITDA increased to HK\$588.8 million and EBITDA margin was 30.8% (29.6% in the last corresponding period)
- Operating profit increased to HK\$394.3 million and operating profit margin was 20.6% (19.7% in the last corresponding period)
- Net profit attributable to Shareholders increased to HK\$300.2 million – an increase of 11.1% as compared to the last corresponding period.
- Adjusted net profit attributable to Shareholders increased to HK\$328.2 million – an increase of 4.7% as compared to the last corresponding period
- Earnings per Share (basic and diluted) was 19.9 HK cents – an increase of 10.6% as compared to the last corresponding period
- Net debt to capital ratio of 19.1% as of 30 June 2019 (63.1% as of 31 December 2018)
- Cash and cash equivalent and pledged deposits of HK\$1,309.9 million as of 30 June 2019 (HK\$237.7 million as of 31 December 2018)
- Interim cash dividend of 4.0 HK cents per Share

Letter to Shareholders

Dear Shareholders,

I am pleased to report the first interim report following the listing (the "Listing") of Impro Precision Industries Limited (the "Company" together with its subsidiaries, the "Group" or "Impro Group") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group has achieved satisfactory operating results for the six months ended 30 June 2019 amid the challenging global business dynamics.

During the six months ended 30 June 2019, the revenue of Impro Group amounted to HK\$1,911.1 million, representing an increase of 2.3%, as compared to HK\$1,867.8 million for the six months ended 30 June 2018. Net profit attributable to shareholders of the Company (the "Shareholders") amounted to HK\$300.2 million, representing an increase of 11.1%, as compared to HK\$270.1 million for the six months ended 30 June 2018. Earnings per Share (basic and diluted) for the six months ended 30 June 2019 was 19.9 HK cents, up by 10.6% as compared to the last corresponding period.

OVERVIEW OF OPERATING RESULTS

Revenue by business segments

The Group operates primarily in four business segments: investment casting, precision machining, sand casting and surface treatment. Currently, investment casting is the Group's largest business segment and will continue to be our core business segment.

During the six months ended 30 June 2019, revenue derived from the investment casting segment was HK\$862.5 million, an increase of 12.1% as compared to the last corresponding period. The strong revenue growth was mainly attributable to the increase in the sales of products to the aerospace, medical and recreational boat and vehicle end-markets. During the six months ended 30 June 2019, revenue from the precision machining segment was HK\$624.3 million, an increase of 1.2% as compared to the last corresponding period. The increase was primarily due to the increasing demand from the aerospace and the commercial vehicle end-markets, albeit that there was slight revenue decrease in the hydraulic equipment and passenger car end-markets. During the six months ended 30 June 2019, revenue from the sand casting segment was HK\$296.3 million, a decrease of 2.0% as compared to the last corresponding period, primarily due to the sluggish demand in the construction equipment and the agricultural equipment end-markets, which was partially offset by the increase in sales primarily from the high horsepower engine end-market. The amount of revenue generated from the surface treatment segment experienced a disappointing decrease of 28.6% to HK\$128.0 million, as compared to HK\$179.3 million for the six months ended 30 June 2018. The decrease was primarily due to the continued sluggish of sales in the PRC passenger car market.

By Business	Six months ended 30 June					
	2019		2018		Increase/(Decrease)	
	HK\$' million	%	HK\$' million	%	HK\$' million	%
Investment casting	862.5	45.1%	769.3	41.2%	93.2	12.1%
Precision machining	624.3	32.7%	616.8	33.0%	7.5	1.2%
Sand casting	296.3	15.5%	302.4	16.2%	(6.1)	-2.0%
Surface treatment	128.0	6.7%	179.3	9.6%	(51.3)	-28.6%
	1,911.1	100.0%	1,867.8	100.0%	43.3	2.3%

In local currencies, the Group's revenue increased by 6.1% as compared to the six months ended 30 June 2018. This growth rate is higher than the reported growth rate in revenue because of the depreciation of RMB and Euro against HK\$ during the six months ended 30 June 2019 of 5.7% and 6.2%, respectively, as compared to the last corresponding period.

Revenue by end-markets

The Group sells its products to worldwide customers in a broad range of end-markets and the growth in the revenue is largely driven by the increasing demands in these end-markets. The Group continued to deliver strong period-to-period growth in revenue of 33.2% in the aerospace and medical end-markets during the six months ended 30 June 2019, as compared to the six months ended 30 June 2018, and accounted for 11.3% (six months ended 30 June 2018: 8.6%) of total revenue of Impro Group during the same period. Sales to the automotive end-markets, however, decreased to HK\$870.7 million, or by 1.4%, from HK\$883.3 million for the six months ended 30 June 2018. The decrease in revenue was mainly due to the continued sluggish sales in the PRC passenger car market.

By End Market	Six months ended 30 June					
	2019		2018		Increase/(Decrease)	
	HK\$' million	%	HK\$' million	%	HK\$' million	%
Automotive	870.7	45.5%	883.3	47.3%	(12.6)	-1.4%
– Passenger Car	572.9	30.0%	591.9	31.7%	(19.0)	-3.2%
– Commercial vehicle	297.8	15.5%	291.4	15.6%	6.4	2.2%
Industrial & others	825.3	43.2%	823.0	44.1%	2.3	0.3%
– High Horsepower Engine	202.9	10.6%	191.8	10.3%	11.1	5.8%
– Hydraulic Equipment	145.8	7.6%	153.5	8.2%	(7.7)	-5.0%
– Construction Equipment	122.2	6.4%	137.0	7.3%	(14.8)	-10.8%
– Agricultural Equipment	114.7	6.0%	120.4	6.4%	(5.7)	-4.7%
– Recreational Boat and Vehicle	64.2	3.4%	48.4	2.6%	15.8	32.6%
– Energy	15.9	0.8%	14.0	0.8%	1.9	13.6%
– Others	159.6	8.4%	157.9	8.5%	1.7	1.1%
Aerospace & medical	215.1	11.3%	161.5	8.6%	53.6	33.2%
– Aerospace	168.3	8.8%	125.4	6.7%	42.9	34.2%
– Medical	46.8	2.5%	36.1	1.9%	10.7	29.6%
	1,911.1	100.0%	1,867.8	100%	43.3	2.3%

Letter to Shareholders

Looking ahead, Impro Group will continue to invest in the production facilities for the products in the aerospace and the medical end-markets for the purpose of increasing its revenue growth and to achieve a balanced revenue mix with other end-markets, such as automotive, industrial and others in the next few years.

Revenue by geographical market

During the six months ended 30 June 2019, the increase in the Group's revenue was mainly attributable to the increase in sales in Americas and Europe (in particular the significant increase in Americas), which was partially offset by the decline in demand in Asia due to continued sluggish sales in the PRC passenger car market.

By Geographical Market	Six months ended 30 June					
	2019		2018		Increase/(Decrease)	
	HK\$' million	%	HK\$' million	%	HK\$' million	%
Americas	835.0	43.7%	741.1	39.7%	93.9	12.7%
– United States	779.0	40.8%	705.0	37.8%	74.0	10.5%
– Others	56.0	2.9%	36.1	1.9%	19.9	55.1%
Europe	648.7	33.9%	629.5	33.7%	19.2	3.1%
Asia	427.4	22.4%	497.2	26.6%	(69.8)	-14.0%
– the PRC	380.0	19.9%	449.2	24.0%	(69.2)	-15.4%
– Others	47.4	2.5%	48.0	2.6%	(0.6)	-1.3%
	1,911.1	100%	1,867.8	100%	43.3	2.3%

U.S. – China Tariffs

The U.S.–China trade tension remains as the most far-reaching and adverse impact on the global businesses and international trade. The trade tension and the proposed tariffs imposed by the U.S. and the PRC governments not only increase the financial burden to the Group and its customers, but also had a profound impact on the customers' confidence in different end-markets. For instance, the PRC automotive market has recorded a period-on-period sales decline since the third quarter of 2018 and yet to see any significant recovery trend in sales lately.

Since 10 May 2019, the U.S. government announced the increase of import tariff at a rate from 10% to 25% on PRC imported products with the aggregate value of US\$200 billion. Because of this tariff announcement, most of the Group's sales to U.S. customers are already subject to a tariff rate of 25%. We have completed the good faith negotiations with our major US customers, and depending on factors such as the price competitiveness of the products supplied to our customers by the Group and the growth potential of our customers' business volume, the Group has passed the additional tariff partially or in full to our customers. During the six months ended 30 June 2019, the total amount of additional tariff levied on the products of the Group was approximately HK\$60.8 million, and approximately HK\$10.7 million of such additional tariff was borne by our Group.

The Group operates a global manufacturing footprint with 15 manufacturing plants across Asia, Europe, and North America. In April 2019, the Group completed the purchase of two adjacent parcels of land in San Luis Potosi, Mexico with an aggregate total site area of 227,474 sq. m. for US\$7.7 million. Preliminary construction works have commenced during the second quarter of 2019, and the Group planned to complete the construction of the precision machining and sand casting plants at different stages by the end of 2020, and furthermore, we also started the planning and designing to build an investment casting plant on this piece of land. Upon completion of these production plants, the Group will have increased production capacity in North America for the purpose of continuing to penetrate into the North America market and providing better products and services to the customers in the North America, and shortening the supply chain and reducing overall production and logistics costs. The business expansion in Mexico also helps the Group to mitigate trade policy risks.

BUSINESS OUTLOOK

The global political and Sino-US trade relations may not be improved by the end of 2019, and the trade tension is expected to continue and have an impact on the market. The end-market served by the Group, such as automotive and industrial, is expected to continue to oscillate. We will keep striving for increasing market share through the Group's comprehensive advantages. As the Group's global end-markets for aerospace and medical are expected to remain stable and growing, and the one-stop solutions of the Group have contributed significant value to customers, the Group expects to achieve a sustainable and strong growth in these end-markets. Based on the uncertainties surrounding the global economy, the management will constantly review the overall production plan and capacity so that the Group will be well positioned to capture the increasing demand when the relevant end-markets rebound. The Group is also actively exploring acquisition opportunities that could enhance or complement the business model of the Group consistent with the twin-engine growth strategy. The Board will continue to evaluate and review any acquisition opportunities with caution.

INTERIM DIVIDEND

Taking into consideration the profitability of the Group and the financial resources required for business expansion, the Board has resolved that an interim dividend of 4.0 HK cents per Share for the six months ended 30 June 2019 (six months ended 30 June 2018: nil) would be declared.

On behalf of the Board, I would like to sincerely thank all of our customers, shareholders, employees, suppliers and other stakeholders for their continued support.

LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 22 August 2019

Management's Discussion and Analysis

FINANCIAL PERFORMANCE

HK\$ million	Six months ended 30 June		%
	2019	2018	Change
Revenue	1,911.1	1,867.8	2.3%
Gross profit	612.4	591.9	3.5%
Gross profit margin	32.0%	31.7%	0.3%
Profit attributable to shareholders	300.2	270.1	11.1%
Adjusted profit attributable to shareholders ¹	328.2	313.4	4.7%
Earnings per share (Basic and diluted) (HK cents)	19.9	18.0	10.6%
EBITDA ²	588.8	553.0	6.5%
EBITDA margin	30.8%	29.6%	1.2%
Adjusted EBITDA ³	607.5	586.0	3.7%
Adjusted EBITDA margin	31.8%	31.4%	0.4%
Free cash inflow from operations ⁴	180.1	133.9	34.5%
HK\$ million	As at 30 June 2019	As at 31 December 2018	% Change
Cash and cash equivalent and pledged deposits	1,309.9	237.7	451.1%
Total debt	2,035.0	1,930.3	5.4%
Net debt (total debt less cash and cash equivalent and pledged deposits)	725.1	1,692.6	-57.2%
Total equity	3,796.3	2,684.2	41.4%
Market capitalization ⁵	5,518.2	N/A	N/A
Enterprise value ⁶	6,258.5	N/A	N/A
Last twelve months ("L12M") adjusted EBITDA ³	1,163.3	1,141.8	1.9%
Key Financial Ratios			
Enterprise value to L12M adjusted EBITDA ³	5.38	N/A	
Net debt to L12M adjusted EBITDA ³	0.62	1.48	
Net debt to capital	19.1%	63.1%	

Note:

- 1 Reconciliation to adjusted profit attributable to shareholders (non-IFRS measure) :

	Six months ended 30 June	
	2019 HK\$' million	2018 HK\$' million
Profit after tax	300.4	271.3
Adjustments:		
– Listing expenses	18.7	33.0
– Amortization and depreciation related to purchase price allocation, net of tax	9.4	10.3
Adjusted net profit after tax	328.5	314.6
Less: profit attributable to non-controlling interest	(0.3)	(1.2)
Adjusted profit attributable to shareholders	328.2	313.4

- 2 Earnings before interest, tax, depreciation and amortization

- 3 Adjusted EBITDA represents EBITDA added back listing expenses for the six months ended 30 June 2019 and 2018. 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 2019 HK\$' million	Year ended 31 December 2018 HK\$' million
	2019 HK\$' million	2018 HK\$' million		
EBITDA	588.8	553.0	988.4	952.6
Adjustments:				
– Listing expenses	18.7	33.0	33.7	48.0
– Goodwill impairment	–	–	141.2	141.2
Adjusted EBITDA	607.5	586.0	1,163.3	1,141.8

- 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\$3.01 per share as of 30 June 2019)

- 6 Enterprise value calculated as market capitalization plus non-controlling interest plus total debt less cash and cash equivalents and pledged deposits.

Management's Discussion and Analysis

OVERVIEW

As a global top ten manufacturer of high-precision, high complexity and mission-critical casting and machined components for diverse end-markets, the Group supplies customized casting and machined products and provide surface treatment services to a well-diversified global customer base.

The Group's global leading position is underpinned by the integrated business model with comprehensive capabilities of offering one-stop solutions to customers, including a suite of value-added services, which covers the precision component value chain. Leveraging the Group's strong product design and development capabilities as well as advanced technologies and expertise, the Group strive to keep abreast of global industry trends and manufacture products that cater to customers' evolving needs and satisfy their high quality requirements.

During the six months ended 30 June 2019, the trade tension between the United States and the PRC has slowed down the global business activities. Despite the ongoing challenges and difficulties, the Group has been able to achieve a positive growth during the period.

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2019 increased by 2.3% over the same period of the previous financial year to HK\$1,911.1 million.

Gross profit and gross profit margin

The Group's gross profit increased by HK\$20.5 million, or 3.5% to HK\$ 612.4 million for the six months ended 30 June 2019 as compared to HK\$591.9 million for the six months ended 30 June 2018. The increase in gross profit was primarily due to the profit contribution from the investment casting business segment which had increased by HK\$50.9 million, or 21.3% to HK\$290.1 million during the period under review. The gross profit contributed by other business segments decreased during the six months ended 30 June 2019, as compared to last corresponding period.

The Group's gross profit margin slightly increased to 32.0% for the six months ended 30 June 2019. The increase in gross profit margin was mainly attributable to the increase in sales in the aerospace and medical end-market, which generally commanded a higher profit margin as compared to other end-markets.

Other revenue

During the six months ended 30 June 2019, the Group's other revenue decreased by HK\$2.8 million to HK\$9.2 million (Six months ended 30 June 2018: HK\$12.0 million). Other revenue mainly represented discretionary incentives from the local PRC governments in relation to technology development.

Other net income

The Group recorded other net income of HK\$6.5 million for the six months ended 30 June 2019 (Six months ended 30 June 2018: HK\$6.0 million). Other net income mainly represented the net foreign exchange gain due to the fluctuations of Turkish Lira and RMB against Hong Kong Dollars during the periods.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 21.2% from HK\$67.7 million for the six months ended 30 June 2018 to HK\$82.0 million for the six months ended 30 June 2019. The increase stemmed primarily from the increase in custom duties as a result of the share of additional U.S. tariff borne by the Group which amounted to HK\$10.7 million. Accordingly, selling and distribution expenses to revenue ratio increased from 3.6% to 4.3% in the relevant periods.

Administrative and other operating expenses

The Group's administrative and other operating expenses decreased by HK\$22.8 million, or 13.0%, to HK\$151.9 million for the six months ended 30 June 2019, as compared to HK\$174.6 million for the six months ended 30 June 2018. The decrease was mainly attributable to the listing expenses of HK\$18.7 million and HK\$33.0 million recorded in the respective periods. Excluding the listing expenses, the Group's administrative and other operating expenses decreased by HK\$8.5 million, or 6.0%, as compared to the last corresponding period mainly a result of lower bad debt provision and lower staff costs.

Net finance costs

The Group's net finance costs increased from HK\$43.5 million for the six months ended 30 June 2018 to HK\$45.3 million for the six months ended 30 June 2019. The increase was mainly attributable to the increase in LIBOR and HIBOR rate during the period.

Income tax

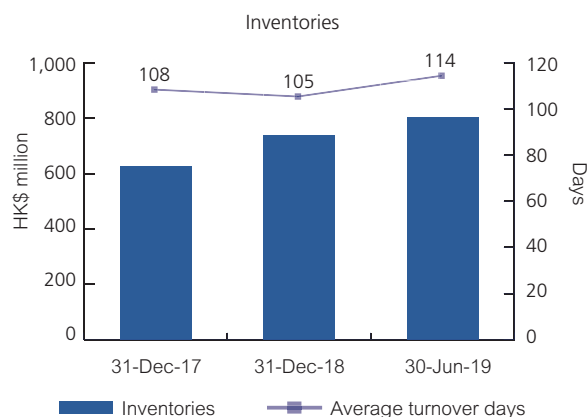
The Group's income tax expense decreased to HK\$48.6 million for the six months ended 30 June 2019 from HK\$52.8 million for the six months ended 30 June 2018. The decrease was primarily attributable to the reversal of over provision of income tax from prior years.

Working capital

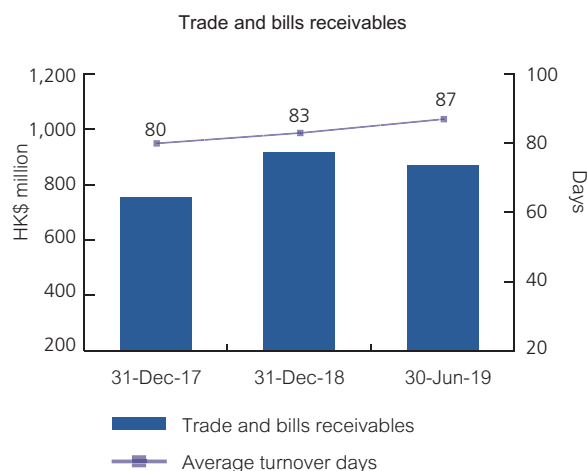
<i>HK\$ million</i>	As at 30 June 2019	As at 31 December 2018
Inventories	804.3	738.4
Trade and bills receivables	870.8	919.5
Prepayments, deposits and other receivables	81.1	101.8
Trade payables	(298.8)	(388.2)
Other payables and accruals	(365.3)	(310.0)
Deferred income	(59.6)	(59.0)
Defined benefit retirement plans obligation	(60.2)	(61.0)
Total working capital	972.3	941.5

Management's Discussion and Analysis

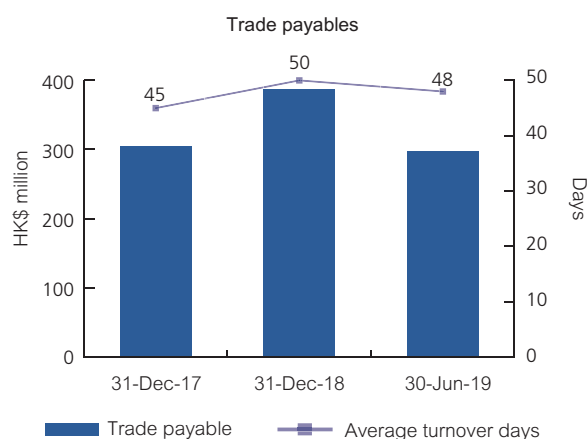
Inventories increased HK\$65.9 million to HK\$804.3 million as of 30 June 2019 (31 December 2018: HK\$738.4 million) mainly due to increased level of finished goods as we returned to normal stock holding level in our US warehouses, and to less extent the higher stock holding in our aerospace and medical end-market products as we continued to expand production amid strong customers' demand. Inventory turnover days increased from 105 days as at 31 December 2018 to 114 days as at 30 June 2019 mainly due to higher finished goods inventory attained.



Trade and bills receivables decreased HK\$48.7 million to HK\$870.8 million as of 30 June 2019 (31 December 2018: HK\$919.5 million) mainly due to the Group's additional effort made on the collection of outstanding trade debtors. Trade and bills receivables turnover days increased from 83 days as at 31 December 2018 to 87 days as at 30 June 2019, mainly due to additional settlement time required by certain customers of the Group. The management of the Group are of the view that the Group's receivables are of high quality and the Group has not encountered any material default payment from customers. Current receivables and overdue balances of less than 30 days are maintained at around 89% of the balance of the gross trade and bills receivables.



Trade payables decreased HK\$89.4 million to HK\$298.8 million as of 30 June 2019 (31 December 2018: HK\$388.2 million). The decrease was mainly due to the reduction of overdue payable balances. Trade payable turnover days as at 30 June 2019 slightly decreased to 48 days as compared to 50 days as at 31 December 2018.



EBITDA and Net profit

For the six months ended 30 June 2019, the Group's EBITDA (earnings before interest, taxation, depreciation and amortization) was HK\$588.8 million, representing an increase of 6.5% as compared to HK\$553.0 million for the six months ended 30 June 2018. The Group's EBITDA margin was 30.8% for the six months ended 30 June 2019 as compared to 29.6% for the six months ended 30 June 2018. Net profit attributable to equity holders of the Company for the six months ended 30 June 2019 was HK\$300.2 million, representing an increase of 11.1%, as compared to HK\$270.1 million for the six months ended 30 June 2018. Net profit margin increased to 15.7% for the six months ended 30 June 2019 from 14.5% for the six months ended 30 June 2018, mainly due to: (i) a higher percentage of revenue being derived from the aerospace end-market which command a higher profit margin, (ii) lower administrative and other operating expenses mainly a result of lower listing expenses and (iii) lower income tax expenses due to the reversal of over provision of income tax from prior years.

Financial resources and liquidity

During the six months ended 30 June 2019, the total assets of the Group increased by 21.6% to HK\$6,770.1 million and total shareholders' equity increased by 41.4% to HK\$3,796.3 million as compared to the amount as at 31 December 2018. The increase was mainly due to the receipt of the net proceeds from the Global Offering and the profit retained during the six months ended 30 June 2019. The Group's current ratio as at 30 June 2019 was 1.49, as compared to 1.06 as at 31 December 2018. The change in current ratio was primarily due to the increase in bank balances from the proceeds of the Global Offering.

The Group continues to adopt a prudent financial management and treasury policy to the effect that the Group can maintain a healthy financial position through different business cycles and achieve a long-term sustainable growth. The Group's business requires a significant amount of working capital for the purchase of raw materials, capital spending and product development cost. Prior to the Listing, the Group's working capital requirements were satisfied by way of internal financial resources and bank borrowings. The Group had positive total cash flow for the six months ended 30 June 2019. The funds generated from operations and cash on hand are adequate to fund the liquidity and capital requirements.

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

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

	Six months ended 30 June	
	2019 HK\$' million	2018 HK\$' million
Cash generated from/(used in):		
Operating activities	481.0	420.5
Investing activities	(300.9)	(286.5)
Financing activities	892.1	(141.7)
Net movement in cash	1,072.2	(7.7)

Management's Discussion and Analysis

Cash flows generated from operating activities was HK\$481.0 million, an increase of HK\$60.5 million compared to HK\$420.5 million in the last corresponding period. The increase in cash flows from operating activities was mainly due to increase in profit but partly offset by higher working capital.

Cash flows used in investing activities was HK\$300.9 million, an increase of HK\$14.4 million compared to HK\$286.5 million in the last corresponding period. The major items on investment activities are payment for capital expenditure which include purchases of machinery, equipment, tooling and infrastructure.

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

	Six months ended 30 June	
	2019 HK\$' million	2018 HK\$' million
Payment of property, plant and equipment	(266.0)	(243.0)
Payment for deferred expenses	(36.9)	(39.2)
Others	2.0	(4.3)
Net cash used in investing activities	(300.9)	(286.5)

Cash flows generated from financing activities was HK\$892.1 million, compared to a net cash flows used in financing activities of HK\$141.7 million in the last corresponding period. The increase in cash flows during the period was mainly due to the receipt of the net proceeds from the Global Offering on 28 June 2019.

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

	Six months ended 30 June	
	2019 HK\$' million	2018 HK\$' million
Proceeds from the Global Offering	999.9	–
Issuance expenses paid	(34.5)	–
Proceeds from bank loans	1,198.3	607.5
Repayment of bank loans	(1,091.9)	(590.6)
Interest paid	(44.8)	(43.0)
Dividend paid	(102.4)	(100.5)
Lease rental paid	(32.5)	(15.1)
Net cash generated from/(used in) financing activities	892.1	(141.7)

Indebtedness

As at 30 June 2019, the Group's total borrowings was HK\$2,035.0 million, an increase of HK\$104.7 million from HK\$1,930.3 million as at 31 December 2018.

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

	As at 30 June 2019 HK\$' million	As at 31 December 2018 HK\$' million
Current bank loans	1,270.2	1,095.8
Non-current bank loans	621.9	698.5
Current lease liabilities	74.0	59.4
Non-current lease liabilities	68.9	76.6
Total borrowings	2,035.0	1,930.3

Details of the bank loans of the Group during the six months ended 30 June 2019 are set out in note 13 to the unaudited Interim Financial Report.

As at 30 June 2019, the Group had total banking facilities available for draw-down of HK\$1,268.3 million.

The Group's net debt to capital ratio as at 30 June 2019 was 19.1% (31 December 2018: 63.1%). This ratio is based on total borrowings less cash and cash equivalents and pledged deposits divided by total equity. The gearing level of the Group has decreased significantly during the period mainly due to the net proceeds received from the Global Offering. Total equity increased as a result of profit growth and new shares issued upon the completion of the Global Offering while bank borrowings also increased of lesser extent because of the business expansion.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditure. The Group incurred capital expenditures of HK\$256.6 million for the six months ended 30 June 2019 which was primarily used in the production capacity expansion in our PRC plants, as well as the infrastructure spending in Mexico. Capital commitments contracted for but not incurred by the Group as at 30 June 2019 amounted to HK\$118.0 million, which were mainly related to plants construction and acquisition of machinery.

Management's Discussion and Analysis

Pledge of Assets

Property, plant and equipment, inventories, trade receivables and bank deposits of the Group amounted to HK\$333.9 million (31 December 2018: HK\$341.4 million), HK\$142.9 million (31 December 2018: HK\$103.8 million), HK\$262.2 million (31 December 2018: HK\$249.2 million) and HK\$2.9 million (31 December 2018: HK\$2.2 million respectively were pledged as security for bank borrowings /facilities as at 30 June 2019.

Contingent Liabilities

As at 30 June 2019, the Group had the following contingent liabilities:

- (a) On 24 September 2011, a fire accident was incurred on the plant of Nantong Shenhai Industrial Technology Co., Ltd. ("Shenhai Industrial"). Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the "Insurer"). On 12 May 2015, the Supreme People's Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK\$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People's Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People's Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.
- (b) Shenhai Industrial received arbitration notice that on 8 October 2018 the former shareholders of Shenhai Group was sued by the law firm, which had received the Dissenting Payments of RMB8,000,000 in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial's fire accident insurance. The domestic law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB13,000,000 excluding the Dissenting Payments of RMB8,000,000 and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. As of the date of this report, the arbitration has been suspended due to that the arbitrator considered the case is linked to the Group's appeal against the law firm commenced on 8 January 2019 and the judgement result may directly affect the arbitration. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter. Details of the arbitration of the Group is set out in note 11 to the unaudited Interim Financial Report.

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, 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 2019.

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 and Renminbi while most of the cost of sales is denominated in Renminbi, Turkish Lira and Euro. As a result, exchange rate fluctuations between RMB and HKD or RMB and USD could affect the Group's performance and asset value in the reporting currency of HKD.

To reduce the exposure to foreign currency exchange risk, the Group's management monitors the foreign exchange rates from time to time and may adjust the currency mix of the loan portfolio in a proportion that resembled the respective underlying sales currency proportion with a view to reducing the impact of exchange rate fluctuations. As at 30 June 2019, the borrowings of the Group were denominated in HKD, USD, RMB and Euro, in which, HK\$404.7 million of borrowings were at fixed interest rates.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the six months ended 30 June 2019, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 30 June 2019, the Group had about 7,532 full-time employees of whom 6,389 were based in Mainland China and 1,143 were based in Turkey, Germany, Mexico, Hong Kong, United states, and other countries. The total staff costs, including the emoluments of the Directors, amounted to HK\$473.5 million for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$464.3 million).

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

Use of Proceeds from the Global Offering

The Company completed the Global Offering on 28 June 2019 with the Over-allotment Option (as defined in the Prospectus) exercised in full on 24 July 2019. The amount of the net proceeds received from the Global Offering (including the full exercise of the Over-allotment Option) after deducting underwriting fees and commissions and other expenses in connection with the Global Offering was HK\$1,031.5 million (the "Actual Amount of the Net Proceeds"), which is more than the estimated amount set for the in the Prospectus. Thus, the Company plans to apply the Actual Amount of the Net Proceeds on the use of proceeds plan as stated in the Prospectus for the period from 1 July 2019 to 31 December 2020 on a pro rata basis except for repayment of interest bearing bank borrowings. The Company has not used the net proceeds during the six months ended 30 June 2019 as the Company only received the proceeds on 28 June 2019 and 24 July 2019.

Management's Discussion and Analysis

The table below sets forth the proposed use of the net proceeds from the Global Offering:

Business strategies as set out in the Prospectus	Actual amount of the Net Proceeds HK\$ million
Capital expenditures for production capacity expansion	437.9
Repayment of interest-bearing bank borrowings	271.1
Acquisition of businesses	219.0
Working capital and general corporate purpose	103.5
Total	1,031.5

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2019 HK\$' 000	2018 HK\$' 000 (Note)
Revenue	3	1,911,085	1,867,804
Cost of sales		(1,298,711)	(1,275,895)
Gross profit		612,374	591,909
Other revenue	4(a)	9,216	11,975
Other net income	4(b)	6,507	6,049
Selling and distribution expenses		(81,968)	(67,655)
Administrative and other operating expenses		(151,863)	(174,623)
Profit from operations		394,266	367,655
Net finance costs	5(a)	(45,258)	(43,518)
Profit before taxation	5	349,008	324,137
Income tax	6	(48,563)	(52,790)
Profit for the period		300,445	271,347
Attributable to:			
Equity shareholders of the Company		300,186	270,107
Non-controlling interest		259	1,240
Profit for the period		300,445	271,347
Earnings per share			
Basic (HK\$)	7(a)	0.199	0.180
Diluted (HK\$)	7(b)	0.199	0.180

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The notes on pages 25 to 57 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 16(b) and 16(c).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 (unaudited)
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
			(Note)
Profit for the period		300,445	271,347
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		(394)	1,213
Related tax		340	130
<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		(14,104)	(49,884)
Other comprehensive income for the period (after tax adjustments)		(14,158)	(48,541)
Total comprehensive income for the period		286,287	222,806
Attributable to:			
Equity shareholders of the Company		286,076	221,685
Non-controlling interest		211	1,121
Total comprehensive income for the period		286,287	222,806

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The notes on pages 25 to 57 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

	Note	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000 (Note)
Non-current assets			
Property, plant and equipment	8	2,910,432	2,761,648
Prepayments for purchase of property, plant and equipment		61,090	69,449
Intangible assets		77,977	85,504
Goodwill		454,664	457,312
Deferred expenses		165,052	166,512
Other financial asset		2,274	2,283
Deferred tax assets		26,929	22,635
		<u>3,698,418</u>	<u>3,565,343</u>
Current assets			
Inventories	9	804,302	738,430
Trade and bills receivables	10	870,819	919,458
Prepayments, deposits and other receivables	11	81,069	101,779
Taxation recoverable		5,579	5,239
Pledged deposits	12(b)	2,899	2,195
Cash and cash equivalents	12(a)	<u>1,307,004</u>	<u>235,543</u>
		<u>3,071,672</u>	<u>2,002,644</u>

Consolidated Statement of Financial Position

at 30 June 2019 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000 (Note)
Current liabilities			
Bank loans	13	1,270,092	1,095,777
Lease liabilities	2(d)	74,036	59,444
Trade payables	14	298,841	388,193
Other payables and accruals	15	365,310	309,960
Taxation payable		48,710	38,328
		<u>2,056,989</u>	<u>1,891,702</u>
Net current assets		<u>1,014,683</u>	<u>110,942</u>
Total assets less current liabilities		<u>4,713,101</u>	<u>3,676,285</u>
Non-current liabilities			
Bank loans	13	621,944	698,520
Lease liabilities	2(d)	68,895	76,575
Deferred income		59,581	59,034
Defined benefit retirement plans obligation		60,243	60,977
Deferred tax liabilities		106,134	97,000
		<u>916,797</u>	<u>992,106</u>
NET ASSETS		<u>3,796,304</u>	<u>2,684,179</u>

	Note	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000 (Note)
CAPITAL AND RESERVES	16		
Share capital		183,330	128
Reserves		3,597,749	2,669,037
Total equity attributable to equity shareholders of the Company		3,781,079	2,669,165
Non-controlling interest		15,225	15,014
TOTAL EQUITY		3,796,304	2,684,179

Approved and authorized for issue by the board of directors on 22 August 2019.

Lu Ruibo

Directors

Wang Hui, Ina

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The notes on pages 25 to 57 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company							Non-controlling interest	Total equity
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Exchange reserve	Retained profits	Total		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2018		128	543,673	1,110	162,268	(18,973)	1,827,281	2,515,487	13,586	2,529,073
Changes in equity for the six months ended 30 June 2018:										
Profit for the period		-	-	-	-	-	270,107	270,107	1,240	271,347
Other comprehensive income		-	-	-	-	(49,765)	1,343	(48,422)	(119)	(48,541)
Total comprehensive income		-	-	-	-	(49,765)	271,450	221,685	1,121	222,806
Appropriation of dividends	16(c)	-	-	-	-	-	(100,500)	(100,500)	-	(100,500)
Balance at 30 June 2018 and 1 July 2018		128	543,673	1,110	162,268	(68,738)	1,998,231	2,636,672	14,707	2,651,379
Changes in equity for the six months ended 31 December 2018:										
Profit for the period		-	-	-	-	-	139,496	139,496	628	140,124
Other comprehensive income		-	-	-	-	(105,218)	(1,785)	(107,003)	(321)	(107,324)
Total comprehensive income		-	-	-	-	(105,218)	137,711	32,493	307	32,800
Appropriation of reserve		-	-	-	28,758	-	(28,758)	-	-	-
Balance at 31 December 2018 (Note)		128	543,673	1,110	191,026	(173,956)	2,107,184	2,669,165	15,014	2,684,179

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The notes on pages 25 to 57 form part of this interim financial report.

		Attributable to equity shareholders of the Company								
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Exchange reserve	Retained profits		Non-controlling interest	Total equity
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31 December 2018		128	543,673	1,110	191,026	(173,956)	2,107,184	2,669,165	15,014	2,684,179
Impact on initial application on IFRS 16	2	—	—	—	—	—	(1,083)	(1,083)	—	(1,083)
Balance at 1 January 2019		<u>128</u>	<u>543,673</u>	<u>1,110</u>	<u>191,026</u>	<u>(173,956)</u>	<u>2,106,101</u>	<u>2,668,082</u>	<u>15,014</u>	<u>2,683,096</u>
Changes in equity for the six months ended 30 June 2019:										
Profit for the period		—	—	—	—	—	300,186	300,186	259	300,445
Other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,056)</u>	<u>(54)</u>	<u>(14,110)</u>	<u>(48)</u>	<u>(14,158)</u>
Total comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,056)</u>	<u>300,132</u>	<u>286,076</u>	<u>211</u>	<u>286,287</u>
Capitalization issue	16(a)(i)	149,872	(149,872)	—	—	—	—	—	—	—
Issue of ordinary shares by initial public offering, net of issuance costs	16(a)(ii)	33,330	895,991	—	—	—	—	929,321	—	929,321
Appropriation of dividends	16(c)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(102,400)</u>	<u>(102,400)</u>	<u>—</u>	<u>(102,400)</u>
Balance at 30 June 2019		183,330	1,289,792	1,110	191,026	(188,012)	2,303,833	3,781,079	15,225	3,796,304

The notes on pages 25 to 57 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000 (Note)
Operating activities			
Cash generated from operations		514,000	469,684
Tax paid		(32,978)	(49,259)
Net cash generated from operating activities		481,022	420,425
Investing activities			
Payment for the acquisition of property, plant and equipment		(266,020)	(243,028)
Payment for deferred expenses		(36,920)	(39,158)
Other cash flows arising from investing activities		2,066	(4,293)
Net cash used in investing activities		(300,874)	(286,479)
Financing activities			
Proceeds from issue of ordinary shares by initial public offering		999,900	—
Share issuance costs paid		(34,500)	—
Proceeds from bank loans		1,198,337	607,464
Repayment of bank loans		(1,091,924)	(590,620)
Interest paid		(44,766)	(42,885)
Dividends paid to equity shareholders of the Company		(102,400)	(100,500)
Capital element of lease rentals paid		(29,576)	(13,282)
Interest element of lease rentals paid		(2,994)	(1,859)
Net cash generated from/(used in) financing activities		892,077	(141,682)
Increase/(decrease) in cash and cash equivalents		1,072,225	(7,736)
Cash and cash equivalents at 1 January	12(a)	235,543	242,322
Effect of foreign exchange rate changes		(764)	(1,483)
Cash and cash equivalents at 30 June	12(a)	1,307,004	233,103

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

The notes on pages 25 to 57 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report of Impro Precision Industries Limited (the “Company”) and its subsidiaries (collectively referred to as 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 22 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Accountants’ Report disclosed in Appendix I of the prospectus of the Company dated 18 June 2019 (the “Prospectus”), except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statement. Details of any changes in accounting policies are set out in Note 2.

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 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 consolidated financial information for the year ended 31 December 2018 included in the Accountants’ Report disclosed in Appendix I of the Prospectus. The 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.

The financial information relating to the financial year ended 31 December 2018 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 the financial information for the year ended 31 December 2018 included in the Accountants’ Report disclosed in Appendix I of the Prospectus. The Company’s reporting accountants have reported on the financial information for the financial year ended 31 December 2018. The Accountants’ report was unqualified and did not include a reference to any matters to which the reporting accountants drew attention by way of emphasis without qualifying its report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have 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.

IFRS 16, *Lease*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, International Financial Reporting Interpretations Committee Interpretation 4, *Determining whether an arrangement contains a lease*, Standing Interpretation Committee Interpretation 15, *Operating leases – incentives*, and Standing Interpretation Committee Interpretation 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Changes in the accounting policies (continued)

(ii) *Lessee accounting*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property, plant and equipment as disclosed in Note 8(a).

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

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. For the Group, low-value assets are typically office equipment. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

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

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

As explained in the above accounting policies, the lease liability is initially recognized at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognized in future years.

(c) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.60%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
- (iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review;
- (iv) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- (v) when determining the lease term, the Group used hindsight if the contract contains options to extend or terminate the lease.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in Note 17(b) as at 31 December 2018 to the opening balance for lease liabilities recognized as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	30,178
Less: commitments relating to leases exempt from capitalization:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,532)
– leases of low-value assets	(891)
	25,755
Less: total future interest expenses	(2,938)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	22,817
Add: obligations under finance lease recognized as at 31 December 2018	136,019
Total lease liabilities recognized at 1 January 2019	158,836

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if IFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of IFRS 16). Any difference between the right-of-use asset recognized and the lease liability is recognized as an adjustment to the opening balance of equity at the date of initial application of IFRS 16.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset.

The Group presents right-of-use assets in “Property, plant and equipment” and presents lease liabilities separately in the consolidated statement of financial position.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Transitional impact (continued)

The following table summarizes the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$'000	Capitalization of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	2,761,648	21,734	2,783,382
Total non-current assets	3,565,343	21,734	3,587,077
Lease liabilities (current)	59,444	4,787	64,231
Current liabilities	1,891,702	4,787	1,896,489
Net current assets	110,942	(4,787)	106,155
Total assets less current liabilities	3,676,285	16,947	3,693,232
Lease liabilities (non-current)	76,575	18,030	94,605
Total non-current liabilities	992,106	18,030	1,010,136
Net assets	2,684,179	(1,083)	2,683,096

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Transitional impact (continued)

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 HK\$'000	At 1 January 2019 HK\$'000
Included in "Property, plant and equipment":		
Leasehold land, carried at depreciated cost	87,588	89,022
Properties held for own use, carried at depreciated cost	22,477	16,203
Furniture, fixtures and equipment, carried at depreciated cost	2,659	2,958
Machinery, carried at depreciated cost	174,886	169,329
Motor vehicles, carried at depreciated cost	1,243	2,573
	288,853	280,085

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	74,036	77,556	64,231	66,357
After 1 year but within 2 years	49,807	51,913	61,833	65,883
After 2 years but within 5 years	18,507	19,883	30,643	33,647
After 5 years	581	686	2,129	2,212
	68,895	72,482	94,605	101,742
	142,931	150,038	158,836	168,099
Less: total future interest expenses		(7,107)		(9,263)
Present value of lease liabilities		142,931		158,836

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2 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. This does not result in a material impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the period.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognized under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for the six months ended 30 June 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group (Continued)

	Six months ended 30 June				2018
	2019				
		Add back:	Deduct:		
	Amounts	IFRS 16	Estimated	Hypothetical	Compared
	reported	depreciation	leases as	amounts	to amounts
	under	and interest	if under	for 2019	reported for
	IFRS 16	expense	IAS 17	as if under	2018 under
	(A)	(B)	(Note (i))	IAS 17	IAS 17
	(A)	(B)	(C)	(D=A+B+C)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	394,266	3,143	(3,611)	393,798	367,655
Finance costs	(45,258)	528	–	(44,730)	(43,518)
Profit before taxation	349,008	3,671	(3,611)	349,068	324,137
Profit for the period	300,445	3,671	(3,611)	300,505	271,347
Reportable segment profit for the six months ended 30 June 2019 (Note 3(b)) impacted by the adoption of IFRS 16:					
– Investment casting	276,715	–	(1,321)	275,394	225,888
– Precision machining	173,126	–	(1,239)	171,887	191,656
– Sand casting	104,648	–	(669)	103,979	104,970
– Surface treatment	53,875	–	(382)	53,493	60,669
	608,364	–	(3,611)	604,753	583,183

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2 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group (Continued)

	Six months ended 30 June			2018
	Amounts reported under IFRS 16 (A) HK\$'000	2019 Estimated amounts related to operating leases as if under IAS 17 (Notes (i) & (ii)) (B) HK\$'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under IAS 17 HK\$'000
Line items in the consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	514,000	(3,611)	510,389	469,684
Net cash generated from operating activities	481,022	(3,611)	477,411	420,425
Capital element of lease rentals paid	(29,576)	3,083	(26,493)	(13,282)
Interest element of lease rentals paid	(2,994)	528	(2,466)	(1,859)
Net cash generated from/(used in) financing activities	892,077	3,611	895,688	(141,682)

Note:

- (i) The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.
- (ii) In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

Revenue	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Investment casting	862,462	769,278
Precision machining	624,338	616,852
Sand casting	296,293	302,366
Surface treatment	127,992	179,308
	1,911,085	1,867,804

The Group's revenue from contracts with customers were recognized at point in time for the six months ended 30 June 2019 and 2018. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 3(b)(iii).

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

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3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

- 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 engine parts, marine parts, hydraulic equipment parts and construction equipment parts.
- Surface treatment: It primarily contains surface treatment services including plating, anodising, painting and coating.

(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 and the changes in fair value of derivative component of financial instruments issued. 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.

3 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 2019				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	862,462	624,338	296,293	127,992	1,911,085
Inter-segment revenue	–	–	–	11,692	11,692
Reportable segment revenue	862,462	624,338	296,293	139,684	1,922,777
Gross profit from external customers	290,058	185,713	98,934	37,669	612,374
Inter-segment gross profit	–	–	–	5,224	5,224
Reportable segment gross profit	290,058	185,713	98,934	42,893	617,598
Depreciation and amortization	76,452	56,222	36,674	25,153	194,501
Reportable segment profit	276,715	173,126	104,648	53,875	608,364

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3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

	Six months ended 30 June 2018 (Note)				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	769,278	616,852	302,366	179,308	1,867,804
Inter-segment revenue	—	—	—	13,142	13,142
Reportable segment revenue	769,278	616,852	302,366	192,450	1,880,946
Gross profit from external customers	239,118	203,227	99,178	50,386	591,909
Inter-segment gross profit	—	—	—	5,508	5,508
Reportable segment gross profit	239,118	203,227	99,178	55,894	597,417
Depreciation and amortization	69,718	53,145	37,582	24,947	185,392
Reportable segment profit	225,888	191,656	104,970	60,669	583,183
As at 30 June 2019					
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	1,986,322	1,835,554	813,022	777,655	5,412,553
As at 31 December 2018 (Note)					
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	1,895,432	1,784,845	807,277	819,899	5,307,453

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

3 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	
	2019 HK\$'000	2018 HK\$'000 (Note)
Revenue		
Reportable segment revenue	1,922,777	1,880,946
Elimination of inter-segment revenue	(11,692)	(13,142)
Consolidated revenue	1,911,085	1,867,804
Gross profit		
Reportable segment gross profit	617,598	597,417
Elimination of inter-segment gross profit	(5,224)	(5,508)
Consolidated gross profit	612,374	591,909
Profit		
Reportable segment profit	608,364	583,183
Elimination of inter-segment profit	(5,224)	(5,508)
Reportable segment profit derived from Group's external customers	603,140	577,675
Other revenue	9,216	11,975
Other net income	6,507	6,049
Listing expenses	(18,700)	(32,993)
Unallocated head office and corporate expenses	(11,396)	(9,659)
Consolidated profit before interest, taxes, depreciation and amortization	588,767	553,047
Net finance costs	(45,258)	(43,518)
Depreciation and amortization	(194,501)	(185,392)
Consolidated profit before taxation	349,008	324,137

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

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3 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, interest in a joint venture 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	
	2019 HK\$'000	2018 HK\$'000 (Note)
Americas		
– United States	778,950	705,028
– Others	56,018	36,092
Europe	648,705	629,499
Asia		
– The PRC	379,965	449,140
– Others	47,447	48,045
	1,911,085	1,867,804

Specified non-current assets

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000 (Note)
United States	16,134	2,289
Europe	879,906	898,643
The PRC	2,648,046	2,582,006
Mexico	127,403	59,770
	3,671,489	3,542,708

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

4 OTHER REVENUE AND OTHER NET INCOME

(a) Other revenue

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Rental income	55	767
Government grants	7,049	9,581
Others	2,112	1,627
	<u>9,216</u>	<u>11,975</u>

(b) Other net income

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Net exchange gain	5,492	6,372
Net gain/(loss) on disposal of property, plant and equipment	258	(79)
Others	757	(244)
	<u>6,507</u>	<u>6,049</u>

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5 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000 (Note)
Interest income from bank deposits	(974)	(515)
Interest expenses on bank loans	45,690	43,796
Interest expenses on lease liabilities	2,994	1,859
Less: borrowing costs capitalized as construction in progress	(2,452)	(1,622)
	46,232	44,033
Net finance costs	45,258	43,518

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

(b) Other items

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000 (Note)
Cost of inventories recognized as expenses*	1,298,711	1,275,895
Depreciation charges		
– owned property, plant and equipment	132,613	140,990
– right-of-use assets	17,173	–
Amortization of intangible assets	6,976	7,423
Amortization of deferred expenses	37,739	36,979
Research and development expenses	53,479	47,084
Impairment loss on trade and other receivables	1,677	5,134
Provision for write-down of inventories	3,439	5,957
Listing expenses	18,700	32,993

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

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

6 INCOME TAX

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Current tax – PRC Corporate Income Tax	18,635	26,759
Current tax – Hong Kong Profits Tax	19,100	10,728
Current tax – Tax jurisdictions outside PRC and Hong Kong	5,276	8,626
Deferred taxation	5,552	6,677
	48,563	52,790

The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. 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 2018: 16.5%) to the six months ended 30 June 2019. 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.

7 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\$300,186,000 (six months ended 30 June 2018: HK\$270,107,000) and the weighted average of 1,505,524,309 ordinary shares (2018: 1,500,000,000 shares, after adjusting for the capitalization issue in 2019) in issue during the interim period.

(b) Diluted 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\$300,186,000 (six months ended 30 June 2018: HK\$270,107,000) and the weighted average of 1,505,625,851 ordinary shares (2018: 1,500,000,000 shares, after adjusting for the capitalization issue in 2019).

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8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in Note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in other property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in Note 2.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of properties and machinery, and therefore recognized the additions to right-of-use assets of HK\$27,774,000.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment at a cost of HK\$262,535,000 (six months ended 30 June 2018: HK\$245,835,000), excluding capitalized borrowing costs of HK\$2,452,000 (six months ended 30 June 2018: HK\$1,622,000). Items of property, plant and equipment with a net book value of HK\$739,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$320,000), resulting in a gain on disposal of HK\$258,000 (six months ended 30 June 2018: a loss of HK\$79,000).

9 INVENTORIES

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Raw materials	195,066	196,885
Work in progress	318,312	296,032
Finished goods	342,469	293,820
	855,847	786,737
Write down of inventories	(51,545)	(48,307)
	804,302	738,430

During the six months ended 30 June 2019, the Group recognized a write-down of HK\$3,439,000 (six months ended 30 June 2018: HK\$5,957,000) 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 and other comprehensive income.

10 TRADE AND BILLS RECEIVABLES

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Trade receivables	837,658	854,844
Bills receivable	61,838	87,162
	899,496	942,006
Less: loss allowance	(28,677)	(22,548)
	870,819	919,458

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

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 2019 HK\$'000	At 31 December 2018 HK\$'000
Within 1 month	451,199	460,082
1 to 3 months	347,246	386,943
Over 3 months but within 12 months	72,374	72,433
	870,819	919,458

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

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11 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Prepayments	28,959	36,312
Value added tax recoverable	43,047	57,735
Other deposits and receivables	22,741	25,992
	94,747	120,039
Less: loss allowance (Note)	(13,678)	(18,260)
	81,069	101,779

Note:

Subsequent to the completion of acquisition of Nantong Shenhai Science and Industrial Technology Co., Ltd., Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") in June 2014, the Group entered into supplemental agreements with the former shareholders of Shenhai Group in November 2014 and June 2015, respectively, to finalize the consideration of the transfer of ownership interest of Shenhai Group under the original acquisition agreement between the Group and former shareholders of Shenhai Group (the "Seller"). The consideration was payable by instalments and the unpaid portion was fully recognized in the consolidated statement of financial position as at 31 December 2015.

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

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

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

On 8 January 2019, the Group appealed to the local People's Court in Shanghai by claiming the domestic law firm's unjust enrichment amounting to RMB8,000,000.

11 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Note: (Continued)

On 18 April 2019, the Group sued the Seller's representative at the local People's Court in Wuxi, claiming for the repayment of RMB8,000,000 as well as alleging criminal offence of embezzlement. On 21 May 2019, the Group and the Seller's representative reached an accord with satisfaction that the Seller's representative committed to repay the amount in instalments by 30 June 2020. On 27 June 2019, the Group received the first instalment of RMB4,000,000.

As at 30 June 2019, the unsettled portion of Dissenting Payments were recorded under other deposits and receivables in the Group's consolidated statements of financial position. The Group made provision of RMB12,000,000 (equivalent to HK\$13,678,000) (31 December 2018: RMB16,000,000 (equivalent to HK\$18,260,000)) on such other deposits and receivables.

12 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

(a) Cash and cash equivalents

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Cash at bank	1,306,770	235,303
Cash on hand	234	240
	<u>1,307,004</u>	<u>235,543</u>

(b) Pledged deposits

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Pledged deposits for – issuance of letters of credit	<u>2,899</u>	<u>2,195</u>

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

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13 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 2019 HK\$'000	At 31 December 2018 HK\$'000
Short-term bank loans	609,757	394,256
Current portion of long-term bank loans	660,335	701,521
Within 1 year or on demand	<u>1,270,092</u>	<u>1,095,777</u>
After 1 year but within 2 years	556,217	434,579
After 2 years but within 5 years	<u>65,727</u>	<u>263,941</u>
	<u>621,944</u>	<u>698,520</u>
	<u>1,892,036</u>	<u>1,794,297</u>

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

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Bank loans		
– Secured	396,716	581,487
– Unsecured	<u>1,495,320</u>	<u>1,212,810</u>
	<u>1,892,036</u>	<u>1,794,297</u>

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 2019 and 31 December 2018, none of the covenants relating to drawn down facilities had been breached.

14 TRADE PAYABLES

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Trade payables	298,841	388,193

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 2019 HK\$'000	At 31 December 2018 HK\$'000
Within 1 month	224,722	275,294
1 to 3 months	61,459	101,193
Over 3 months	12,660	11,706
	298,841	388,193

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(Expressed in Hong Kong dollars unless otherwise indicated)

15 OTHER PAYABLES AND ACCRUALS

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Other payables (Note)	307,064	255,829
Accrued expenses	58,246	54,131
Other payables and accruals	365,310	309,960

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 2019 HK\$'000	At 31 December 2018 HK\$'000
Deferred consideration payable	62,213	62,460
Salaries, wages, bonus and benefits payable	84,205	82,192
Payables for purchase of property, plant and equipment	29,775	36,723
Contract liabilities	9,243	11,371
Other tax payable	17,870	14,323
Listing expenses payable	51,304	–
Others	52,454	48,760
	307,064	255,829

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

(i) Capitalization issue

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

16 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Share capital (Continued)

(ii) Issue of ordinary shares by initial public offering

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

(b) Dividends payable to equity shareholders attributable to the interim period:

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Dividend declared after the end of each reporting period of HK\$0.04 per share (six month ended 30 June 2018: nil) (Note)	75,332	–

Note: The calculation of dividend per share is based on 1,883,295,000 ordinary shares in issue following the full exercise of the over-allotment option as disclosed in Note 20(a),

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

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

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	
	2019 HK\$'000	2018 HK\$'000
Dividend in respect of the previous financial year, approved and paid during the interim period, of HK\$80.1 per share (six month ended 30 June 2018: HK\$78.6 per share) (Note)	102,400	100,500

Note: The calculation of dividend per share is based on 1,277,912 ordinary shares in issue immediately before the dividend declaration and has not taken into account the capitalization issue and issue of ordinary shares by initial public offering as disclosed in Note 16(a),

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(Expressed in Hong Kong dollars unless otherwise indicated)

16 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) 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 (no share options were granted during the six months ended 30 June 2018). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 28 June 2022, 28 June 2023 and 28 June 2024, and then be exercisable until 24 December 2022, 24 December 2023 and 24 December 2024 respectively in tranches. The exercise price is HK\$2.40, being 20% discount to the initial public offering price of the Company's ordinary shares.

No options were exercised during the six months ended 30 June 2019 (2018: nil).

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

The following assumptions were used to calculate the fair values of share options granted at date of grant:

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

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The values of the stock options are calculated based on the assumptions that are considered to be relevant. Such values are therefore subject to the assumptions used and the limitation of the pricing model adopted.

16 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of net debt to capital ratio. For this purpose, the Group defines net debt as total current and non-current bank loans and lease liabilities less cash and cash equivalents and pledged deposits. The Group defines capital as including all components of equity.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognizes right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt and hence the Group's net debt to capital ratio rose from 63.1% to 63.9% on 1 January 2019 when compared to its position as at 31 December 2018.

Considering the impact of the application of IFRS 16, during the six months ended 30 June 2019, the Group reassessed the range at which it maintains its net debt to capital ratio to be 18.4% to 19.1% (2018: 63.1% to 63.9%).

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(Expressed in Hong Kong dollars unless otherwise indicated)

16 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management (Continued)

The Group's net debt to capital ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	Note	30 June 2019 HK\$'000	1 January 2019 HK\$'000 (Note)	31 December 2018 HK\$'000 (Note)
Current liabilities:				
Bank loans	13	1,270,092	1,095,777	1,095,777
Lease liabilities		74,036	64,231	59,444
		<u>1,344,128</u>	<u>1,160,008</u>	<u>1,155,221</u>
Non-current liabilities:				
Bank loans	13	621,944	698,520	698,520
Lease liabilities		68,895	94,605	76,575
		<u>690,839</u>	<u>793,125</u>	<u>775,095</u>
Total debt		2,034,967	1,953,133	1,930,316
Less: Cash and cash equivalents	12(a)	(1,307,004)	(235,543)	(235,543)
Pledged deposits	12(b)	(2,899)	(2,195)	(2,195)
Net debt		<u>725,064</u>	<u>1,715,395</u>	<u>1,692,578</u>
Total Equity		<u>3,796,304</u>	<u>2,683,096</u>	<u>2,684,179</u>
Net debt to capital ratio		<u>19.1%</u>	<u>63.9%</u>	<u>63.1%</u>

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See Note 2.

17 COMMITMENTS

(a) Capital Commitments outstanding not provided for in the interim financial report

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Contracted for	117,962	176,127
Represented by:		
Construction of plants	44,558	47,426
Acquisition of machinery	73,404	128,701
	117,962	176,127

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	HK\$'000
Within 1 year	10,060
After 1 year but within 5 years	17,881
After 5 years	2,237
	30,178

The Group is the lessee in respect of a number of properties and items of plant, machinery, motor vehicles and office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to these leases (see Note 2). From 1 January 2019 onwards, future lease payments are recognized as lease liabilities in the statement of financial position in accordance with the policies set out in Note 2.

Notes to the Unaudited Interim Financial Report

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18 CONTINGENT LIABILITIES

- (a) On 24 September 2011, a fire accident was incurred on the plant of Shenhai Industrial. Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the “Insurer”). On 12 May 2015, the Supreme People’s Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK\$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People’s Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People’s Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.
- (b) In addition to the litigations related to the Dissenting Payments as disclosed in Note 11, Shenhai Industrial received arbitration notice that on 8 October 2018 the former shareholders of Shenhai Group was sued by the law firm, which had received the Dissenting Payments of RMB8,000,000, in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial’s fire accident insurance as mentioned in Note 11 above. The domestic law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB13,000,000, excluding the Dissenting Payments of RMB8,000,000, and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. As of the date of this report, the arbitration has been suspended due to that the arbitrator considered the case is linked to the Group’s appeal against the law firm commenced on 8 January 2019 and the judgement result may directly affect the arbitration. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

19 MATERIAL RELATED PARTY TRANSACTIONS

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Guarantees to banks for granting banking facilities		
– Mr. Lu Ruibo	–	1,231,575

Certain bank facilities granted to the Group were guaranteed by Mr. Lu Ruibo, the ultimate controlling shareholder of the Company at 31 December 2018, all of which were released upon the listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited on 28 June 2019.

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) On 22 July 2019, pursuant to the full exercise of the over-allotment option by the joint global coordinators of the initial public offering, the Company allotted and issued an additional 49,995,000 shares at the offer price of HK\$3.00 per share. The additional net proceeds from the exercise of over-allotment option amounts to approximately HK\$145.5 million.
- (b) Pursuant to the board resolution on 22 August 2019, the directors declared an interim dividend of HK\$0.04 per share. Further details are disclosed in Note 16(b).

21 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

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 and declared an interim dividend of 4.0 HK cents per Share (six months ended 30 June 2018: nil) for the six months ended 30 June 2019 in the total amount of approximately HK\$75.3 million (six months ended 30 June 2018: nil). Relevant dates for interim dividend payment are set out below.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	4 September 2019
Closure of register of members	6 to 10 September 2019 (both days inclusive)
Record date	10 September 2019
Dividend payment date	on or before 20 September 2019

In order to qualify for the interim dividend, all transfers of Shares 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 Thursday, 5 September 2019.

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

The Shares have been listed on the Stock Exchange since 28 June 2019. Save for the allotment and issuance of 49,995,000 Shares on 24 July 2019 pursuant to the full exercise of the Over-allotment Option (as set forth in the paragraphs under "over-allotment option" as disclosed in the announcements of the Company dated 22 July 2019 and 24 Jul 2019), neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the period from the Listing Date to the six months ended 30 June 2019.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and code provisions of the Code Provisions in the Corporate Governance Code (the "CG Code") 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 throughout the period from the Listing Date to the six months ended 30 June 2019, 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 our Group's Chairman and Chief Executive Officer. Since the founding of our Group in 1998, Mr. LU has been responsible for formulating our overall business development strategies and leading our overall operations, and therefore has been instrumental to our growth and business expansion. Mr. LU's vision and leadership have played a pivotal role in our Group's success and achievements to date, and therefore our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. Our long-serving and outstanding senior management team and our Board, which comprise experienced and high-caliber individuals, provide a check on balance of power and authority. Our Board comprises five executive Directors (including Mr. LU) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Board has established an Audit Committee, a Nomination Committee and a Remuneration 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 The Rules Governing to the Listing of the Stock Exchange (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 throughout the period from the date of the Listing to the six months ended 30 June 2019.

DIRECTOR’S 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 2019, 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**”)), as recorded in the register required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

THE COMPANY AND ASSOCIATED CORPORATION

(i) Long positions in the Shares 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⁾	1,137,790,787	62.06%
	Spouse interest ⁽²⁾	1,500,000	0.08%
Ms. WANG Hui, Ina (“ Ms. WANG ”)	Beneficial owner ⁽²⁾	1,500,000	0.08%
	Spouse interest ⁽³⁾	1,137,790,787	62.06%
Mr. YU Yuepeng	Beneficial owner ⁽⁴⁾	1,500,000	0.08%
Ms. ZHU Liwei	Beneficial owner ⁽⁵⁾	1,500,000	0.08%
Mr. WANG Dong	Beneficial owner ⁽⁶⁾	1,500,000	0.08%

Further Information on the Group

(ii) Interest in associated corporation

<u>Name of Directors</u>	<u>Name of associated corporation</u>	<u>Number of shares</u>	<u>Percentage of shareholding interest</u>
Mr. LU	Impro Development	1	100
Ms. WANG	Impro Development	(Note 3)	(Note 3)

Notes:

- (1) All issued shares of Impro Development Limited ("Impro Development") are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development. Accordingly, Mr. LU is deemed to be interested in the 1,137,790,787 Shares held by Impro Development under the SFO.
- (2) Ms. WANG is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (3) Ms. WANG is the spouse of Mr. LU, and neither is she a director of Impro Development nor holds any interest, beneficial or otherwise, in the issued shares of Impro Development. The disclosure of Ms. WANG's interest in Impro Development is in compliance with the disclosure requirement of spouse interest under Divisions 7 and 8 of Part XV and section 352 of the SFO.
- (4) Mr. YU Yuepeng is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (5) Ms. ZHU Liwei is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (6) Mr. WANG Dong is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

Save as disclosed above, as at 30 June 2019, 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 POSITION IN THE SHARE CAPITAL OF THE COMPANY

As of 30 June 2019, 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	1,137,790,787	62.06%
Mr. LU	Interest in controlled corporation	1,137,790,787	62.06%
Baring Private Equity Asia V Holding (2) Limited ("Baring") ⁽¹⁾	Beneficial owner	237,153,654	12.94%
Casting Holdings Limited ^{(1) (2)}	Interest in controlled corporation	237,153,654	12.94%
The Baring Asia Private Equity Fund V, L.P. ⁽²⁾	Interest in controlled corporation	237,153,654	12.94%
Baring Private Equity Asia GP V, L.P. ⁽²⁾	Interest in controlled corporation	237,153,654	12.94%
Baring Private Equity Asia GP V Limited ⁽²⁾	Interest in controlled corporation	237,153,654	12.94%
Jean Eric Salata Rothleder ⁽²⁾	Interest in controlled corporation	237,153,654	12.94%
GT Cedar Capital (Hong Kong) Limited ("GT Cedar") ⁽³⁾	Beneficial owner	95,267,123	5.20%
Genertec Investment Management Co. Ltd. ⁽⁴⁾	Interest in a controlled corporation	95,267,123	5.20%
China General Technology (Group) Holding Company Limited ⁽⁴⁾	Interest in a controlled corporation	95,267,123	5.20%

Notes:

- (1) Baring is wholly-owned by Casting Holdings Limited. Casting Holdings Limited is owned as to 99.35% by The Baring Asia Private Equity Fund V, L.P. and 0.65% by The Baring Asia Private Equity Fund V Co-Investment L.P.
- (2) Each of Casting Holdings Limited, The Baring Asia Private Equity Fund V, L.P. (as the controlling shareholder of Casting Holdings Limited), Baring Private Equity Asia GP V, L.P. (as the general partner of The Baring Asia Private Equity Fund V, L.P.), Baring Private Equity Asia GP V Limited (as the general partner of Baring Private Equity Asia GP V, L.P.), and Mr. Jean Eric Salata Rothleder (as the sole shareholder of Baring Private Equity Asia GP V Limited) are deemed to be interested in the Shares. Mr. Jean Eric Salata Rothleder disclaims beneficial ownership of the Shares, except to the extent of his economic interest in such entities.

Further Information on the Group

- (3) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.
- (4) Genertec Investment Management Co. Ltd. is owned as to 99.7% by China General Technology (Group) Holding Company Limited and 0.3% by China National Technical Import & Export Corporation, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd. and China General Technology (Group) Holding Company Limited are deemed to be interested in our Shares.

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

(a) Long positions in the Shares and underlying shares of the Company

<u>Name</u>	<u>Capacity</u>	<u>Number of Shares or underlying shares</u>	<u>Approximate percentage to all Shares in issue</u>
Morgan Stanley & Co. International plc	Approved lending agent	49,995,000	2.73%

(b) Lending pool in the Shares and underlying shares of the Company

<u>Name</u>	<u>Capacity</u>	<u>Number of Shares or underlying shares</u>	<u>Approximate percentage to all Shares in issue</u>
Morgan Stanley & Co. International plc	Approved lending agent	49,995,000	2.73%

(c) Interest of substantial shareholders in members of our Group (other than our Company)

<u>Member of our Group</u>	<u>Name of shareholders with 10% or more equity interest other than us</u>	<u>Approximate percentage of shareholding</u>
Impross Impeller (Yixing) Co., Ltd.	Ross Casting and Innovation, LLC	33.00%

Save as disclosed above, the Directors are not aware of any persons who were directly or indirectly interested in 10% or more of the shares then in issue, or equity interest in any member of the Group representing 10% or more of the equity interest in such company, or who had any interests or short positions in the Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2019.

SHARE OPTION SCHEME

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

As of 30 June 2019, the Company has granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and there is no option granted under the Post-IPO Share Option Scheme.

PRE-IPO SHARE OPTION SCHEME

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

- (a) the subscription price per Share shall represent 20% discount to the Offer Price.
- (b) save for the options which have been granted, no further options will be offered or granted, as the right to do so will end upon the Listing.

The table below sets forth the names of the Directors and the number of other grantees under the Pre-IPO Share Option Scheme and the number of share options to them during the six months ended 30 June 2019:

				Number of options ⁽¹⁾				
				Outstanding as of 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as of 30 June 2019
Grantees	Date of grant	Exercise price per option	Exercise period					
Directors								
Ms. WANG Hui, Ina	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Mr. YU Yuepeng	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Ms. ZHU Liwei	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Mr. WANG Dong	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Senior management	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022-24/12/2024	–	6,875,000	–	–	6,875,000
Other employees	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022-24/12/2024	–	17,355,000	–	(287,500)	17,067,500
				–	30,230,000	–	(287,500)	29,942,500

Further Information on the Group

Notes:

- (1) Number of options refers to the number of underlying shares of the Company covered by the options under the Pre-IPO Share Option Scheme.
- (2) These options shall vest in 3 equal tranches. The three tranches are exercisable during a period of 180 days immediately after the third, fourth and fifth anniversary of the Listing Date (both days inclusive).
- (3) Since the Company's Share was 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.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme during the six months ended 30 June 2019.

POST-IPO SHARE OPTION SCHEME

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

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

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

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

Further Information on the Group

EVENTS AFTER THE END OF REPORTING PERIOD

As part of the global offering (the “Global Offering”) completed by the Company in June 2019, the Company had granted to the underwriters of the Global Offering an over-allotment option (the “Over-allotment Option”) to request the Company to allot and issue up to 49,995,000 Shares. The Over-allotment Option has been exercised in full on 19 July 2019 and pursuant to which the Company has allotted and issued 49,995,000 Shares at the price of HK\$3.0 per Share on 24 July 2019. The net proceeds received by the Company of approximately HK\$145.5 million following the full exercise of the Over-allotment Option have been received by the Company on 24 July 2019.

Save for the interim dividend as disclosed in the paragraphs under “interim dividend and closure of register of members” and the over-allotment option as disclosed above, no material events affecting any member of the Group occurred after the date of the Listing up to the date of this interim report.

CHANGE IN INFORMATION OF DIRECTORS

There has been no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules from the date of the Prospectus.

REVIEW OF THE INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, KPMG.

The unaudited interim financial report of the Group for the six months ended 30 June 2019 has been separately reviewed by the Audit Committee and by the Company’s external auditor in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the International Auditing and Assurance Standard Board.

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

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 1008, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

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

LEGAL ADVISERS AS TO HONG KONG LAW

Squire Patton Boggs
29th Floor, Edinburgh Tower
The Landmark
15 Queen Road Central
Central, Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8/F Prince's Building
10 Chater Road
Central, Hong Kong

Corporate Information

PRINCIPAL BANKERS

In Hong Kong:

Bank of China (Hong Kong) Limited

DBS Bank (Hong Kong) Limited

The Hong Kong and Shanghai Banking Corporation Limited

In the PRC:

Bank of Communications Limited

Bank of Jiangsu Co., Ltd.

In the United States:

Cathay Bank

In Germany:

Commerzbank AG

In Turkey:

T. Garanti Bankasi A.S.

In Mexico:

Banco Bilbao Vizcaya Argentaria S.A.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

40/F Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

WEBSITE

www.improrecision.com

SHARE INFORMATION

Stock Code: 1286

Listing date: 28 June, 2019

Board lot: 1,000 ordinary shares

KEY DATES

Ex-dividend date:

Wednesday, 4 September 2019

Closure of register of members:

Friday, 6 September 2019 to Tuesday, 10 September 2019
(both days inclusive)

Record date:

Tuesday, 10 September 2019

Interim dividend payable date:

On or before Friday, 20 September 2019

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.improprecision.com) and HKExnews (www.hkexnews.hk). The Company's Interim Report 2019 will be despatched to the shareholders and available on the same websites on or about 20 September 2019.

BOARD OF DIRECTORS

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

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

Hong Kong, 22 August 2019