



Impro[®]

鷹普精密工業有限公司
Impro Precision Industries Limited
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1286

Global Offering

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Morgan Stanley  BOC INTERNATIONAL

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

 廣發證券(香港)經紀有限公司  AMTD 尚乘
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

Joint Bookrunner and Joint Lead Manager

 DBS

IMPORTANT

IMPORTANT: If you are in any doubt about this prospectus, you should obtain independent professional advice.



IMPRO PRECISION INDUSTRIES LIMITED

鷹普精密工業有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares : 333,300,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares : 33,330,000 Shares (subject to re-allocation)
Number of International Offer Shares : 299,970,000 Shares (subject to re-allocation and the Over-allotment Option)
Offer Price : Not more than HK\$3.30 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.10 per Share
Stock code : 1286

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Morgan Stanley

 **BOC INTERNATIONAL**

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunner and Joint Lead Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Public Inspection in Hong Kong — A. Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, June 21, 2019 (Hong Kong time) and, in any event, not later than Tuesday, June 25, 2019 (Hong Kong time). The Offer Price will be not more than HK\$3.30 and is expected to be not less than HK\$2.80. If, for any reason, the Offer Price is not agreed by Tuesday, June 25, 2019 (Hong Kong time) among the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative range of the Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain events shall occur prior to 8:00 a.m. on Friday, June 28, 2019 (Hong Kong time). Such grounds are set out in the section headed "Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

June 18, 2019

EXPECTED TIMETABLE ⁽¹⁾

| | |
|--|-------------------------------------|
| Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾ | 11:30 a.m. on Friday, June 21, 2019 |
| Application Lists open ⁽³⁾ | 11:45 a.m. on Friday, June 21, 2019 |
| Latest time for lodging WHITE and YELLOW Application Forms | 12:00 noon on Friday, June 21, 2019 |
| Latest time for completing payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) | 12:00 noon on Friday, June 21, 2019 |
| Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾ | 12:00 noon on Friday, June 21, 2019 |
| Application Lists close ⁽³⁾ | 12:00 noon on Friday, June 21, 2019 |
| Expected Price Determination Date ⁽⁵⁾ | Friday, June 21, 2019 |

(1) Announcement of:

- the Offer Price,
- the level of indications of interest in the International Offering,
- the level of applications in the Hong Kong Public Offering, and
- the basis of allocation of the Hong Kong Offer Shares

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company's website at www.improrecision.com⁽⁶⁾ on or before Thursday, June 27, 2019

- (2) Announcement of the results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus Thursday, June 27, 2019

EXPECTED TIMETABLE ⁽¹⁾

Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function from Thursday, June 27, 2019

Despatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽⁹⁾ Thursday, June 27, 2019

Despatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾ Thursday, June 27, 2019

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on Friday, June 28, 2019

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 21, 2019, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Friday, June 21, 2019 and, in any event, not later than Tuesday, June 25, 2019. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us by Tuesday, June 25, 2019, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

EXPECTED TIMETABLE ⁽¹⁾

- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 27, 2019 or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via Electronic Application Instructions to HKSCC" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Impro Precision Industries Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section entitled “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a global top 10 manufacturer of high-precision, high-complexity and mission-critical casting and machined components for diverse end-markets. We supply customized casting and machined products and provide surface treatment services to a well-diversified global customer base. According to the Roland Berger Report, we were the world’s 7th largest independent and China’s largest investment casting manufacturer and also the world’s 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2018. Our global leading position is underpinned by our integrated business model with comprehensive capabilities of offering one-stop solutions to our customers.

Many of our customers are renowned global leaders in their respective industries, including Benteler, Bosch, Caterpillar, Cummins, Honeywell, HUSCO, Modine and Parker-Hannifin. Our principal end-markets include passenger car, commercial vehicle, high horsepower engine, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boat and vehicle, medical and energy. Our three largest revenue contributing end-markets are passenger car, commercial vehicle and high horsepower engine which contributed 30.4%, 16.2% and 10.1% of our total revenue for the year ended December 31, 2018, respectively. In particular, we strategically target to grow the end-markets that we believe have higher profitability and stronger growth potential, such as aerospace and medical end-markets.

We currently have 15 production facilities in China, Turkey, Germany, the Czech Republic and Mexico, which are supported by nine sales offices in China, North America, Luxembourg, Turkey, Germany and Hong Kong, as well as warehousing capacities in China, North America, Luxembourg and Turkey. These strategic locations around the world enable us to better allocate internal resources, reduce transportation costs and lead time, and serve our global customers in a timely manner. In 2018, our revenue derived from the United States, Europe, China and Asia (excluding China) accounted for 42.0%, 32.6%, 22.9% and 2.5%, respectively, of our total revenue.

SUMMARY

In 2016, 2017 and 2018, our revenue amounted to HK\$2,547.2 million, HK\$3,049.1 million and HK\$3,749.1 million, respectively. The increase in revenue was mainly driven by the increasing demand for end products of our customers in the relevant end-markets and geographic markets which in turn led to growing demand for our products and services, more advanced technology available to our customers to achieve higher industry standard and increasing demand for our high end products, as well as the sales generated from new product development and also new customers acquired.

OUR BUSINESS MODEL

We are a value-added, integrated manufacturer of high-precision, high-complexity and mission-critical casting and machined components and provider of comprehensive surface treatment services. We manufacture and supply customized products and services according to customers' specifications. We operate in four business segments: investment casting, precision machining, sand casting and surface treatment. Currently, investment casting is our largest business segment and will continue to be our core business segment.

We have established an integrated business model, enabling us to offer comprehensive one-stop solutions that cover the precision component value chain throughout the entire product life cycle. Our manufacturing capabilities cover the entire precision component production process, from tooling design and manufacturing, casting, secondary machining, heat treatment, surface treatment to finishing, enabling us to offer ready-to-use products and services to customers. In addition to commercial production, we also offer a comprehensive suite of services catering to customer needs, ranging from prototype design in early product development stage, continuous research and development support, logistics and other supply chain support.

We supply customized products and provide services to a wide range of end-markets. We have a sizable and diversified customer base that includes a number of global leaders in their respective industries with internationally recognized brand names, from which we have derived a substantial portion of revenue.

OUR PRODUCTION

The major machinery and equipment used at our production facilities include robotic ceramic shell making systems, vacuum melting and casting systems, CNC machining centers, CNC grinding machines, CNC lathes and surface treatment production lines. Most of such machinery and equipment are owned by us, while a small number of them are leased by us

SUMMARY

from third parties under operating leases or finance leases. The following table sets forth certain production data by business segment for the years indicated:

| | For the year ended December 31, | | |
|---|---------------------------------|--------|--------|
| | 2016 | 2017 | 2018 |
| Investment casting (in tonnes, except utilization rates) | | | |
| Production capacity..... | 10,423 | 11,417 | 12,531 |
| Production volume | 7,799 | 9,129 | 10,489 |
| Utilization rate | 74.8% | 80.0% | 83.7% |
| Precision machining (in thousand machine hours, except utilization rates) | | | |
| Production capacity..... | 1,560 | 2,018 | 2,303 |
| Production volume | 1,254 | 1,588 | 1,799 |
| Utilization rate | 80.4% | 78.7% | 78.1% |
| Sand casting (in tonnes, except utilization rates) | | | |
| Production capacity..... | 16,200 | 16,800 | 21,674 |
| Production volume | 12,460 | 14,150 | 19,600 |
| Utilization rate | 76.9% | 84.2% | 90.4% |
| Surface treatment (in tonnes, except utilization rates) | | | |
| Production capacity..... | 63,047 | 70,107 | 76,183 |
| Production volume | 42,093 | 44,118 | 48,725 |
| Utilization rate | 66.8% | 62.9% | 64.0% |

For our calculation method, see “Business — Production — Production Facilities — Production Capacity, Production Volume and Utilization Rate.”

OUR CUSTOMERS

We have built a large, diversified and stable customer base, including a number of global industry leaders with internationally recognized brand names. We have also established strong and long-standing business relationships with our major customers. As a result, we maintain long-term commercial ties with our major customers. In 2016, 2017 and 2018, revenue from sales to our five largest customers was HK\$880.6 million, HK\$1,232.6 million and HK\$1,649.9 million, respectively, representing 34.6%, 40.4% and 44.0%, respectively, of our total revenue.

SUMMARY

For the same periods, revenue from sales to our single largest customer was HK\$316.5 million, HK\$461.9 million and HK\$518.7 million, respectively, representing 12.4%, 15.1% and 13.8%, respectively, of our total revenue. In 2018, we provided products and services to over 1,000 customers located in over 30 countries and regions worldwide.

We sell our products primarily through internal sales forces. We also engage a limited number of third-party sales representative firms to solicit business for us in the United States and European markets. We entered into sale and purchase agreements with customers solicited by the sales representative firms, and paid commission to the sales representative firms. In 2016, 2017 and 2018, 91.5%, 90.9% and 90.7%, respectively, of our revenue was generated by our direct sales force while 8.5%, 9.1% and 9.3%, respectively, of our revenue was generated by third-party sales representatives.

We generally adopt a cost-plus approach to determine the prices of our products and services, under which we add our desired gross profit margins, which are based on their estimated manufacturing, administrative and sales costs, after referring to the prevailing market prices of similar products.

OUR GEOGRAPHIC MARKETS

During the Track Record Period, we made sales to the United States, Europe, China and other Asian countries. The following table sets forth a breakdown of our revenue by geographic market and the corresponding percentages for the years indicated:

| | For the year ended December 31, | | | | | |
|-------------------------------------|--|-----------------|------------------|-----------------|------------------|-----------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (in thousands of HK\$, except percentages) | | | | | |
| Revenue by geographic market | | | | | | |
| United States | 1,046,036 | 41.1 | 1,253,268 | 41.1 | 1,575,072 | 42.0 |
| Europe | 880,313 | 34.6 | 1,049,787 | 34.4 | 1,222,419 | 32.6 |
| China | 561,113 | 22.0 | 668,722 | 21.9 | 859,470 | 22.9 |
| Asia (excluding China) | 59,752 | 2.3 | 77,366 | 2.6 | 92,152 | 2.5 |
| | 2,547,214 | 100.0 | 3,049,143 | 100.0 | 3,749,113 | 100.0 |

SUMMARY

OUR END-MARKETS

Our products and services are widely applied to various end-markets and the following table shows our major end-markets and their respective contribution to our revenue during the Track Record Period.

| | For the year ended December 31, | | | | | |
|--|--|-----------------|------------------|-----------------|------------------|-----------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (in thousands of HK\$, except percentages) | | | | | |
| Revenue by end-market | | | | | | |
| Passenger car | 892,461 | 35.0 | 997,186 | 32.7 | 1,138,051 | 30.4 |
| Commercial vehicle | 414,766 | 16.3 | 502,343 | 16.5 | 607,421 | 16.2 |
| High horsepower engine | 225,095 | 8.8 | 257,787 | 8.5 | 379,452 | 10.1 |
| Hydraulic equipment | 164,718 | 6.5 | 257,035 | 8.4 | 311,760 | 8.3 |
| Aerospace | 144,482 | 5.7 | 195,977 | 6.4 | 281,937 | 7.5 |
| Construction equipment | 155,215 | 6.1 | 219,108 | 7.2 | 260,019 | 6.9 |
| Agricultural equipment | 147,328 | 5.8 | 192,237 | 6.3 | 235,437 | 6.3 |
| Recreational boat and vehicle | 78,047 | 3.1 | 82,893 | 2.7 | 99,802 | 2.7 |
| Medical | 65,514 | 2.6 | 72,289 | 2.4 | 82,858 | 2.2 |
| Energy | 18,326 | 0.7 | 24,147 | 0.8 | 31,339 | 0.8 |
| Other end-markets ⁽¹⁾ | 241,262 | 9.4 | 248,141 | 8.1 | 321,037 | 8.6 |
| | 2,547,214 | 100.0 | 3,049,143 | 100.0 | 3,749,113 | 100.0 |

Note:

- (1) Other end-markets mainly include products for pumps, bearings, locks, oil and gas equipment, fire and security equipment and food processing machinery.

OUR SUPPLIERS

Our principal raw materials are metals such as stainless steel, alloy steel and iron. In 2016, 2017 and 2018, cost of raw materials represented 31.6%, 35.3% and 36.6%, respectively, of our cost of sales. During the Track Record Period, we did not experience any shortage or delay in the supply of our raw materials.

We source raw materials mainly from suppliers located in regions around our production facilities. In 2016, 2017 and 2018, purchases from our five largest suppliers were HK\$134.4 million, HK\$186.8 million and HK\$194.2 million, respectively, representing 7.6%, 9.0% and 7.6%, respectively, of our total cost of sales, and purchases from our single largest supplier were HK\$41.4 million, HK\$61.6 million and HK\$60.3 million, respectively, representing 2.3%, 3.0% and 2.4%, respectively, of our total cost of sales for the same periods. We generally purchase raw materials based on spot contracts and do not enter into long-term procurement

SUMMARY

agreements with suppliers. We seek to pass significant increases in raw material prices on to our customers through the price adjustment mechanisms set up with some of our customers. See “Business — Customers — Pricing Policy” for details about the price adjustment mechanisms.

To better manage our production cost and complement our production capability and capacity, we subcontract part of our production process, principally non-core and relatively simple processes, to a number of subcontractors in China, Germany and Turkey. In 2016, 2017 and 2018, our total subcontracting fees amounted to HK\$125.6 million, HK\$129.7 million and HK\$190.9 million, respectively, which represented 7.1%, 6.3% and 7.5%, respectively, of our total cost of sales in such periods.

OUR STRENGTHS

We believe the following competitive strengths have contributed, and will continue to contribute, to our success and distinguish us from our competitors:

- Global top 10 and China’s largest manufacturer of high-precision, high-complexity and mission-critical casting components
- Strategic and long-term relationships with well-recognized global industry leaders, having passed their stringent certification requirements
- Worldwide manufacturing footprint and service network ensuring fast and superior customer service
- Diversified end-markets endorsed by a large customer base with increasing presence in high growth sectors
- Growing wallet share driven by integrated one-stop solution capabilities and cross-selling opportunities
- Successful “Twin Growth Engines” strategy combining organic growth with highly synergetic acquisitions
- Seasoned and visionary management team with Track Record of superior growth and profitability

SUMMARY

OUR STRATEGIES

Our business objective is to reinforce our market position as one of the world's top precision component companies. To accomplish this objective, we plan to:

- Continue to focus on high-precision, high-complexity and mission-critical products and provide one-stop solutions
- Deepen relationship with existing major customers and develop new opportunities with other global industry leading customers
- Continue our "Twin Growth Engines" strategy that encompasses both organic growth and strategic acquisitions
- Reinforce our existing leading position in certain end-markets and focus on increasing presence in additional selected areas with growth prospect
- Continue to invest in research and development to optimize production processes and improve operational efficiency
- Enhance our global footprint to meet customer needs on a global basis

OUR CAPITAL EXPENDITURE AND CAPACITY EXPANSION PLANS

In 2016, 2017 and 2018, we incurred capital expenditures for production expansion and upgrades in the amount of HK\$448.1 million, HK\$365.5 million and HK\$567.7 million, respectively. We expect to continue to invest in production expansion and upgrades, and estimate that the amount of our capital expenditures will total approximately HK\$581.9 million in 2019. The majority portion of our capital expenditures have been, and will continue to be, deployed for the purpose of our production capacity expansion, which is critical for us to maintain our capability to reinforce our existing leading position in certain end-markets and to increase our presence in selected areas with growth prospect, as well as to grow our sales thereby, deepening our relationship with our existing major customers. During the three years ended December 31, 2016, 2017 and 2018, we recorded depreciation charges of HK\$229.9 million, HK\$248.2 million and HK\$277.7 million, respectively.

We have formulated capacity expansion plans, and intend to increase our production capacity primarily through debottlenecking relevant production processes and adding new machinery and equipment to supplement our existing production lines. We are establishing a new production facility in Mexico and recruit more production employees.

SUMMARY

Our capital expansion plans, whether for our existing plants or our new production facility, have been carefully formulated taking into account anticipated demand for our products, industry trends of our end-markets and the availability of raw materials and human resources. We expect that our expansion plans will increase our capacity, and the increased property, plant and equipment will result in higher depreciation charges. However, such increased capacity is expected to support our revenue growth, strengthen our relationship with our key customers and therefore will lead to a positive impact on our future financial results.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of our Group for the years or as of the dates indicated. We have derived the summary from the consolidated financial information of our Group set forth in the Accountants' Report in Appendix I. The following summary should be read together with the consolidated financial statements in Appendix I, including the accompanying notes. The consolidated financial information of our Group was prepared in accordance with the International Financial Reporting Standards.

Summary Consolidated Statements of Profit or Loss

| | For the year ended December 31, | | |
|--|--|-------------|-------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$, except percentages) | | |
| Revenue | 2,547,214 | 3,049,143 | 3,749,113 |
| Cost of sales | (1,777,877) | (2,071,271) | (2,541,346) |
| Gross profit | 769,337 | 977,872 | 1,207,767 |
| Gross profit margin ⁽¹⁾ | 30.2% | 32.1% | 32.2% |
| Profit before taxation | 410,801 | 481,494 | 487,382 |
| Profit for the year | 339,373 | 401,702 | 411,471 |
| Net profit margin ⁽²⁾ | 13.3% | 13.2% | 11.0% |

Notes:

- (1) Gross profit margin is calculated by dividing gross profit by the revenue during each reporting year.
- (2) Net profit margin is calculated by dividing profit for the year by the revenue during each reporting year.

SUMMARY

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin for each of our business segments for the years indicated:

| | For the year ended December 31, | | |
|---|---------------------------------|-----------|-----------|
| | 2016 | 2017 | 2018 |
| (in thousands of HK\$, except percentages) | | | |
| Revenue, gross profit and gross profit margin by segment | | | |
| <i>Investment casting</i> | | | |
| Revenue | 1,151,868 | 1,333,139 | 1,581,166 |
| Gross profit..... | 353,260 | 433,716 | 516,341 |
| Gross profit margin | 30.7% | 32.5% | 32.7% |
| <i>Precision machining</i> | | | |
| Revenue | 713,759 | 953,087 | 1,215,210 |
| Gross profit..... | 194,275 | 297,338 | 387,803 |
| Gross profit margin | 27.2% | 31.2% | 31.9% |
| <i>Sand casting</i> | | | |
| Revenue | 325,745 | 429,858 | 601,842 |
| Gross profit..... | 103,252 | 148,831 | 198,703 |
| Gross profit margin | 31.7% | 34.6% | 33.0% |
| <i>Surface treatment</i> | | | |
| Revenue | 355,842 | 333,059 | 350,895 |
| Gross profit..... | 118,550 | 97,987 | 104,920 |
| Gross profit margin | 33.3% | 29.4% | 29.9% |

Summary Consolidated Statements of Financial Position

| | As of December 31, | | | As of |
|---|--------------------|-----------|-----------|-------------------|
| | 2016 | 2017 | 2018 | April 30, 2019 |
| (in thousands of HK\$) | | | | |
| <i>(unaudited)</i> | | | | |
| Non-current assets | 3,260,117 | 3,626,394 | 3,565,343 | 3,747,874 |
| Current assets | 1,347,272 | 1,707,751 | 2,002,644 | 2,061,767 |
| Current liabilities..... | 1,299,813 | 1,679,578 | 1,891,702 | 1,876,815 |
| Net current assets | 47,459 | 28,173 | 110,942 | 184,952 |
| Total assets less current liabilities | 3,307,576 | 3,654,567 | 3,676,285 | 3,932,826 |
| Non-current liabilities | 1,327,551 | 1,125,494 | 992,106 | 1,109,461 |
| Net assets | 1,980,025 | 2,529,073 | 2,684,179 | 2,823,365 |

SUMMARY

During the Track Record Period, we recorded significant amount of goodwill of HK\$571.3 million, HK\$626.0 million and HK\$457.3 million, which accounted for approximately 12.4%, 11.7% and 8.2% of our total assets as of December 31, 2016, 2017 and 2018, respectively. Such significant goodwill arose from the acquisitions of Shenhai Group and Cengiz Makina, which we completed prior to the Track Record Period. The change in the amount of goodwill in 2016, 2017 and to a lesser extent, in 2018 was due to changes in Renminbi and Euro exchange rates when we translated goodwill from the functional currency into the presentation currency. In addition, as a result of the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018 and the latest 2019 outlook, we recognized an impairment loss of goodwill of HK\$141.2 million in 2018 in respect of Shenhai Group. We may be required to record a significant charge to earnings in our financial statements in the future if our management determines our goodwill to be impaired, which could materially and adversely affect our profit. See “Risk Factors — We recorded significant goodwill relating to our historical completed acquisitions. If our goodwill is determined to be impaired, our profit could be adversely affected.” and “Financial Information — Selected Items in the Consolidated Statements of Financial Position — Goodwill” for further details.

Summary Consolidated Statements of Cash Flows

| | For the year ended December 31, | | |
|--|---------------------------------|-----------|-----------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Net cash generated from operating activities | 633,473 | 751,946 | 777,585 |
| Net cash used in investing activities | (386,627) | (398,295) | (588,472) |
| Net cash used in financing activities..... | (295,990) | (300,286) | (187,340) |
| Net (decrease)/increase in cash and cash equivalents | (49,144) | 53,365 | 1,773 |
| Cash and cash equivalents at the beginning of the year | 239,417 | 182,250 | 242,322 |
| Effect of foreign exchange rate changes..... | (8,023) | 6,707 | (8,552) |
| Cash and cash equivalents at the end of the year | 182,250 | 242,322 | 235,543 |

SUMMARY

Non-IFRS Financial Measures^{(1),(2),(3)}

| | For the year ended December 31, | | |
|---|--|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$, except percentages) | | |
| Profit after tax..... | 339,373 | 401,702 | 411,471 |
| <i>Adjustments after taxation</i> | | | |
| Plants relocation related government subsidies, net of expenses, net of tax impact | (53,474) | — | — |
| Net gain arising from other financial liabilities | (8,805) | — | — |
| Gain arising from business combination of a joint venture | — | (6,233) | — |
| Listing expenses | — | 4,330 | 48,000 |
| Impairment loss of goodwill | — | — | 141,178 |
| Amortization and depreciation related to purchase price allocation adjustments, net of tax impact .. | 67,118 | 45,321 | 19,545 |
| | <u>4,839</u> | <u>43,418</u> | <u>208,723</u> |
| Adjusted NPAT⁽⁴⁾ | <u>344,212</u> | <u>445,120</u> | <u>620,194</u> |
| Revenue | 2,547,214 | 3,049,143 | 3,749,113 |
| Adjusted NPAT margin ⁽⁴⁾ | 13.5% | 14.6% | 16.5% |

Notes:

- (1) We present the unaudited non-IFRS financial measures to supplement our consolidated statements of profit or loss for the years ended December 31, 2016, 2017 and 2018 that were prepared in accordance with IFRS to provide additional information about our operating performance. We believe the non-IFRS financial measures are useful measures for our management and investors to assess our financial performance and financial condition as: (i) these are non-IFRS measures commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the investment casting and precision machining segments as the basis of operating performance; (ii) during the Track Record Period, we recorded a number of one-off income and expenses. In particular, as we have implemented our “Twin Growth Engines” strategy, the amortization and depreciation expenses related to the purchase price allocation adjustments and the impairment loss of goodwill, which arise as a result of our acquisitions of Shenhai Group and Cengiz Makina may have a significant impact on our IFRS net profit as compared with companies with similar operations but without such material acquisitions. These acquisitions are non-recurring in nature. Similarly, the plants relocation related government subsidies, the net gain arising from other financial liabilities and the gain arising from business combination of a joint venture are also one-off items and non-recurring in nature.
- (2) None of the unaudited non-IFRS financial measures is a recognized term under IFRS. They do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with IFRS. You should not consider our definition of adjusted NPAT in isolation or construe it as an alternative to profit for the year indicated or as an indicator of operating performance or any other standard measure under IFRS.
- (3) The use of the non-IFRS financial measures has certain limitations. The non-IFRS financial measures should be read in conjunction with our IFRS financial measures. For more details about such limitations, the definitions of our non-IFRS financial measures as well as reconciliation of such non-IFRS financial measures to their respective most directly comparable financial measures, see “Financial Information — Selected Consolidated Statements of Profit or Loss and Other Data — Non-IFRS Financial Measures” for more details.
- (4) We define adjusted NPAT as net profit after tax for the year adjusted for the after-tax impact of the significant one-off items. For further details of the definitions of adjusted NPAT and adjusted NPAT margin, see “Financial Information — Selected Consolidated Statements of Profit or Loss and Other Data — Non-IFRS Financial Measures.”

SUMMARY

KEY FINANCIAL RATIOS

The table below sets forth our key financial ratios for the years or as of the dates indicated:

| | As of or for the year ended December 31, | | |
|--|--|------|------|
| | 2016 | 2017 | 2018 |
| Key financial ratios | | | |
| Net gearing ratio (%) ⁽¹⁾ | 86.8 | 65.2 | 63.1 |
| Interest coverage (times) ⁽²⁾ | 5.5 | 6.8 | 6.3 |
| Leverage ratio (times) ⁽³⁾ | 3.5 | 3.0 | 2.9 |
| Return on assets (%) ⁽⁴⁾ | 7.3 | 8.1 | 7.5 |
| Return on equity (%) ⁽⁵⁾ | 17.7 | 17.9 | 15.8 |
| Current ratio (times) ⁽⁶⁾ | 1.0 | 1.0 | 1.1 |

Notes:

- (1) Our net gearing ratio equals total interest-bearing bank loans and obligations under finance leases less cash and cash equivalents and pledged deposits divided by total equity as of the end of the financial year.
- (2) Our interest coverage is profit from operations divided by interest expenses on total interest-bearing bank loans.
- (3) Our leverage ratio equals total interest-bearing bank loans and obligations under finance leases less cash and cash equivalents and pledged deposits divided by profit or annualized profit from operations for each financial year.
- (4) Our return on assets equals profit for each financial year divided by the average of the beginning and ending total assets of the same year.
- (5) Our return on equity ratio equals profit for the year attributable to equity shareholders of the group divided by the average of the beginning and ending total equity attributable to equity shareholders of the group of the same year.
- (6) Our current ratio equals current assets divided by current liabilities as of the end of each financial year.

NET CURRENT ASSETS

Our net current assets as of December 31, 2017 decreased to HK\$28.2 million from HK\$47.5 million as of December 31, 2016, mainly due to the increase in the proportion of short term bank loans. Our net current assets increased to HK\$110.9 million as at December 31, 2018, mainly due to the increase in trade and bills receivables, which is partially offset by the increase in short term bank loans.

As of December 31, 2018, we had short-term borrowings of HK\$1,155.2 million, long-term borrowings of HK\$775.1 million, cash and cash equivalents of HK\$235.5 million and pledged deposits of HK\$2.2 million, resulting in net borrowings (calculated as total borrowings less cash and cash equivalents and pledged deposits) of HK\$1,692.6 million. As of April 30, 2019, we had bank facilities in a total amount of HK\$3,435.4 million, of which HK\$1,394.6 million was unutilized.

SUMMARY

See “Financial Information — Liquidity and Capital Resources” for more details about our liquidity position.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Set forth below are certain material recent developments on our financial condition after December 31, 2018, which is the end of the Track Record Period. The financial information for the three months ended March 31, 2019 as mentioned below was derived from the unaudited interim consolidated financial statements of the Group for the three months ended March 31, 2019. The unaudited interim consolidated financial statements of the Group for the three months ended March 31, 2019 has been reviewed by our reporting accountants 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:

- Our revenue increased by approximately 6.5% from HK\$910.5 million for the three months ended March 31, 2018 to HK\$969.6 million for the corresponding period in 2019. Most of our business segments recorded a stable growth, primarily due to the strong customer demands, particularly from aerospace, recreational boat and vehicle and high horsepower engine end-markets;
- Our gross profit increased by approximately 10.6% from HK\$284.3 million for the three months ended March 31, 2018 to HK\$314.4 million for the corresponding period in 2019. Our gross profit margin increased from 31.2% for the three months ended March 31, 2018 to 32.4% for the corresponding period in 2019, primarily due to economies of scale, product mix and also favourable Renminbi exchange rate; and
- Our net current assets increased from HK\$110.9 million as of December 31, 2018 to HK\$140.3 million as of March 31, 2019, primarily due to increase in inventories and decrease in trade payables, which is partially offset by the decrease in trade and bills receivables.

As of the Latest Practicable Date, we had accumulated secured sales orders amounting to HK\$1,428.6 million that we expect to fulfill by the end of 2019. If indicative orders are included, the total sales orders we had accumulated as of the Latest Practicable Date amounted to HK\$3,363.1 million, among which approximately HK\$1,738.5 million are outstanding orders that we expect to fulfill by the end of 2019.

Changes to trade policies, treaties and tariffs in the United States and China remain uncertain in 2019. Any adverse change or perceived changes may affect the financial and economic conditions in those jurisdictions, in turn, our financial condition and results of operations. In June, August and September 2018, the United States announced three lists of tariff lines on Chinese imported goods. The third finalized list came into effect on September 24, 2018 and the additional tariff was levied at an initial rate of 10% to be increased to 25% by January 1, 2019. Moreover, it was also reported that the United States was considering to announce tariffs on additional US\$267 billion worth of Chinese products. However, in December 2018, it was announced by the White House that the rate of the tariff on products included in the third finalized list will remain at 10% until March 1, 2019 and the previously threatened additional tariffs will not be imposed, pending negotiation between the governments of the PRC and the United States. After several rounds of trade talks, on February 24, 2019, President Trump announced that he would extend the original March 1,

SUMMARY

2019 deadline with respect to the increase of the rate of tariff from 10% to 25% under the third finalized list. The tariff rate was increased to 25% with effect from May 10, 2019. For illustrative purposes only, approximately 30.4%, 30.7% and 32.0% of the Group's total sales for the financial years ended December 31, 2016, 2017 and 2018, respectively, were derived from products exported to the United States that are subject to the additional tariff. Assuming additional tariff at the rate of 25% were levied throughout the Track Record Period in respect of such products and based on the U.S. imported prices and sales volumes of the relevant products, the additional amounts of tariff incurred by the Group would have been HK\$159.8 million, HK\$197.1 million and HK\$246.9 million, respectively, the net profit of the Group would have been HK\$207.4 million, HK\$237.3 million and HK\$203.0 million, respectively, and the net profit margin of the Group would have been 8.1%, 7.8% and 5.4%, respectively, for the financial years ended December 31, 2016, 2017 and 2018.

The U.S.-China trade tension remains and it is uncertain any further measures will be taken. Please refer to "Financial Information — Impacts of the U.S. Tax Tariffs" for a more detailed discussion of the U.S. tariff plans and the resulting impacts on us for the performance in 2018. See also "Risk Factors — Risk Relating to Our Business and Industry — Changes in international trade policies and international barriers to trade may have an adverse effect on our competitiveness and expansion plans." We will strive to leverage our global footprint and collaborate with our customers to mitigate our adverse exposure to such tariff lines mainly by passing on the additional tariff to our customers. In this regard, we have entered into good faith negotiations with our customers individually and we have been able to pass the additional tariff partially or in full to our customers depending on factors including the price competitiveness of the products we supply to them and the potential of the business volume growth for the customers. For the year ended December 31, 2018, the total amount of additional tariff levied on our products was approximately HK\$31.1 million and approximately HK\$11.8 million of such additional tariff was borne by our Group. In addition, we also believe the adverse impact of the additional tariff would be partially offset by the depreciation of Renminbi since June 2018 as we typically generate our revenue in U.S. dollars or Euro from the export products. Accordingly, we do not believe the additional tariff will have a material impact on our financial results in the future.

After due and careful consideration, our Directors confirm that, save as disclosed above, up to the date of this prospectus, there has been no material adverse change in our financial and trading position since December 31, 2018, and there is no event since December 31, 2018 which would materially affect the audited financial information as set out in Appendix I to this prospectus.

SUMMARY OF MATERIAL RISK FACTORS

We believe our business is subject to risks and uncertainties that may materially and adversely affect us, including but not limited to:

- global macroeconomic conditions and regional economies are subject to uncertainty;
- our business largely depends on broader trends in our end-markets;
- changes in international trade policies and international barriers to trade may have an adverse effect on our competitiveness and expansion plans;
- we may not be able to implement our production capacity expansion plans or effectively manage our capacity expansion;

SUMMARY

- our sales are dependent on a number of major customers, and our revenue and profitability could be materially adversely affected if we fail to maintain relationships with any of our major customers;
- our efforts to expand our business in end-markets with high growth prospects and high margins may not achieve our expected results;
- we are required to obtain and maintain approvals, permits, licenses and certifications, including industry-specific quality management certifications, for our operations, procedures of which could be costly and time consuming; any loss of such permits, licenses and/or certifications, could adversely affect our business, results of operations, financial condition and prospects; and
- raw material prices may fluctuate and we may not be able to timely or fully pass on increases in raw material prices or risks to customers.

See “Risk Factors” starting on page 44 of this prospectus for a detailed discussion of the risk factors affecting our operation and the Global Offering. You should read the whole “Risk Factors” section carefully before you decide to invest in the Offer Shares.

REGULATORY COMPLIANCE — FATAL ACCIDENT IN PRC PLANT

During the Track Record Period, there was one fatal accident in one of the Company’s PRC plants. The relevant PRC plant was found to be not fully compliant with the PRC Law on Safety Production and resulted in administrative penalties of RMB250,000, and the Group paid compensation of RMB800,000 for this incident. After the incident, the Group has taken actions and implemented enhanced safety measures. See “Business — Regulatory Compliance — Fatal Accident in PRC Plant” for further details.

OUR SHAREHOLDERS

Immediately upon completion of the Global Offering, Impro Development will directly hold 1,137,790,787 Shares, representing approximately 62.06% of the issued share capital of our Company (without taking into consideration our Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme). Impro Development is an investment holding company and is 100% beneficially owned by Mr. LU.

We have three pre-IPO investors, Baring, GT Cedar, and ASF Radio. Baring has become our shareholder since December 2011. GT Cedar completed the acquisition of 81,162 Shares from Ping An SPV on March 29, 2019. ASF Radio completed the acquisition of 25,378 Shares from GE Capital on November 4, 2015. Immediately upon completion of the Global Offering, Baring, GT Cedar, and ASF Radio will hold 237,153,654 Shares, 95,267,123 Shares, and 29,788,436 Shares, respectively, representing approximately 12.94%, 5.20%, and 1.62% of

SUMMARY

the issued share capital of our Company (without taking into consideration our Shares that may be allotted and issued or sold pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme).

We entered into the Cornerstone Investment Agreement on June 12, 2019, pursuant to which the Cornerstone Investor has agreed to invest HK\$220.0 million for the subscription for the International Offer Shares at the Offer Price (inclusive of brokerage, trading fee and transaction levy), rounded down to the nearest board lot. Based on the Offer Price of HK\$3.05 (being the mid-point of the indicative range of the Offer Price), the total number of the International Offer Shares to be subscribed by the Cornerstone Investor would be 71,404,000 Shares, representing 21.42% of the initial number of our Offer Shares and 3.89% of our entire issued capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised).

GLOBAL OFFERING STATISTICS

| | |
|-----------------------|--|
| Offer size | : Initially approximately 18.18% of the enlarged issued share capital of our Company in aggregate (subject to the Over-allotment Option) |
| Offering structure | : Initially 10% for Hong Kong Public Offering (subject to adjustment) and 90% for International Offering (subject to adjustment and the Over-allotment Option) |
| Over-allotment Option | : Up to 15% of the number of the Offer Shares initially available under the Global Offering |
| Offer Price per Share | : HK\$2.80 to HK\$3.30 per Offer Share |

| | Based on the low-end of the indicative Offer Price range of HK\$2.80 per Share | Based on the high-end of the indicative Offer Price range of HK\$3.30 per Share |
|--|---|--|
| Market capitalization of our Shares ⁽¹⁾ | HK\$5,133.2 million | HK\$6,049.9 million |
| Pro forma adjusted consolidated net tangible asset value per Share ⁽²⁾ | HK\$1.64 | HK\$1.72 |

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 1,833,300,000 Shares which are expected to be in issue and outstanding immediately following completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustment referred to in Appendix II and based on 1,833,300,000 Shares which are expected to be in issue and outstanding immediately following completion of the Capitalization Issue and the Global Offering. No

SUMMARY

adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company to reflect our trading results or other transactions entered into subsequent to December 31, 2018, including but not limited to the dividends declaration on March 29, 2019. Had such dividends been declared on December 31, 2018, our unaudited pro forma adjusted consolidated net tangible assets would have been decreased by approximately HK\$102.4 million, and our unaudited pro forma adjusted consolidated net tangible assets per Share would have been decreased approximately by HK\$0.06.

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK\$3.05 per Offer Share (being the mid-point of the Offer Price range) and that the Over-allotment Option is not exercised, we estimate that the net proceeds receivable by us from the Global Offering (after deducting underwriting fees and commission and estimated expenses payable by us in connection with the Global Offering) will be approximately HK\$903.5 million. We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 40% of our estimated net proceeds, representing approximately HK\$361.3 million, will be used to fund our capital expenditures mainly in connection with our production capacity expansion, including the purchases of machinery and equipment to debottleneck or expand our capacity of investment casting in PRC and Mexico, as detailed in “Business — Production — Our Capital Expenditure and Capacity Expansion Plans;”
- approximately 30% of our estimated net proceeds, representing approximately HK\$271.1 million, will be used to repay our interest-bearing banks borrowings. We applied all of these bank loans for our working capital needs;
- approximately 20% of our estimated net proceeds, representing approximately HK\$180.7 million, will be used to selectively pursue potential acquisitions of businesses that complement our business model and are in line with our growth strategy; as of the Latest Practicable Date, we had not identified any acquisition targets. It is envisaged that we will seek acquisition opportunities mainly in investment casting or precision machining companies catering for end-markets with high-growth, such as aerospace and medical, with a focus on potential acquisition targets with a valuation of not less than US\$20 million. In selecting and assessing potential acquisition opportunities, we will consider synergies between the acquisition target and the rest of the Group post-acquisition, experience and skills of the management team, operation scale, technological capability, product portfolio, customer base, end-market exposures, valuation and estimated costs, as well as cultural fit; and
- approximately 10% of our estimated net proceeds, representing approximately HK\$90.4 million, will be used as our working capital and for general corporate purposes.

SUMMARY

LISTING EXPENSES

We expect to incur total listing expenses of approximately HK\$113.1 million (including underwriting commissions and incentive fees (assuming full payment) of approximately HK\$38.8 million, assuming an Offer Price of HK\$3.05 per Offer Share, being the mid-point of the indicative range of the Offer Price of HK\$2.80 to HK\$3.30 per Offer Share) in connection with this Global Offering.

In 2017 and 2018, we incurred listing expenses of approximately HK\$4.3 million and HK\$48.0 million, respectively, which had been recognized as administrative and other operating expenses for the years ended December 31, 2017 and 2018, respectively, and we expect listing expenses of approximately HK\$18.8 million to be recognized as administrative and other operating expenses for the year ending December 31, 2019, and HK\$42.0 million to be charged to share premium upon Listing. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending on December 31, 2019.

DIVIDENDS AND DIVIDEND POLICY

In 2016 and 2017, we declared and distributed dividends of HK\$50.0 million and HK\$118.0 million, respectively, representing approximately 25% of consolidated net profit attributable to equity shareholders for the years ended December 31, 2015 and 2016. We declared and distributed in March 2018 and March 2019, respectively, a dividend of HK\$100.5 million and HK\$102.4 million, which is based on approximately 25% of our consolidated net profit attributable to our equity shareholders in 2017 and 2018, respectively. As of the Latest Practicable Date, we had paid out all the dividends declared during the Track Record Period and in March 2019.

Following the Listing, our Board may determine to pay dividends at its own discretion in the future after considering our profits, cash flows, business opportunities and capital requirements (including the capital injection to our subsidiaries for their future expansion), general financial condition, regulatory limitations on our PRC and other subsidiaries' ability to distribute dividends to us and any other factors that our Board considers relevant.

We currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 25% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

| | |
|--|---|
| “Amended and Restated Shareholders Deed” | the amended and restated shareholders deed dated March 29, 2019 and entered into among, Impro Development, our Company, Mr. LU, Baring, ASF Radio, and GT Cedar |
| “Application Form(s)” | WHITE, YELLOW and GREEN application form(s), or where the context so requires, any of them |
| “Application Lists” | the application lists for the Hong Kong Public Offering |
| “Articles of Association” or “Articles” | the amended and restated articles of association of our Company conditionally adopted on June 15, 2018 which will become effective on the Listing Date, a summary of which is set out in Appendix III to this prospectus |
| “ASF Lock-up Deed” | the lock-up deed dated June 12, 2019 entered into by ASF Radio in favor of our Company, Morgan Stanley Asia Limited, BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited, AMTD Global Markets Limited, Morgan Stanley & Co. International PLC, and DBS Asia Capital Limited in respect of the Shares held by ASF Radio |
| “ASF Radio” | ASF Radio, L.P., a limited partnership established in Delaware on July 30, 2015, one of our Shareholders which is governed by ASF Radio GP, LLC as its general partner and advised by Juna Equity Partners, LP as its investment adviser |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Baring” | Baring Private Equity Asia V Holding (2) Limited, a company incorporated in the BVI on December 16, 2011 |
| “Baring Lock-up Deed” | the lock-up deed dated June 12, 2019 entered into by Baring in favor of our Company, Morgan Stanley Asia Limited, BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited, AMTD Global Markets Limited, Morgan Stanley & Co. International PLC, and DBS Asia Capital Limited in respect of the Shares held by Baring |

DEFINITIONS

| | |
|---------------------------------|---|
| “Baring Repurchase Undertaking” | the repurchase undertaking dated July 24, 2018 entered into by our Company, Baring, Ping An SPV, and ASF Radio in respect of the purchase right of Baring and the disposal right of Ping An SPV on the Shares owned by Ping An SPV, which was subsequently terminated by the Termination Deed |
| “Baring Subscription Agreement” | the subscription agreement dated April 7, 2017 entered into between Baring and China Ping An whereby Baring issued and allotted 127,875 Class B Ordinary Shares (as defined therein) to China Ping An or its designee, representing 38.76% of the ordinary shares in issue of Baring |
| “Benteler” | Benteler International AG and its affiliates, a leading global company that develops, produces and sells products, systems and services for the automotive, energy and engineering sectors and being one of our major customers; the three business divisions Benteler Automotive, Benteler Steel/Tube and Benteler Distribution are organized under the strategic management holding company Benteler International AG in Salzburg, Austria; with technological expertise and strong focus on successful implementation, Benteler develops solutions that make the difference — for customers, employees and society |
| “BFG-Czech” | BFG Czech s.r.o., a limited liability company incorporated in the Czech Republic on September 19, 2007 and an indirect wholly-owned subsidiary of our Company |
| “BFG Group” | BFG-Czech, BFG-Hessen, and BFG-Niederrhein |
| “BFG-Hessen” | BFG Feinguss Hessen GmbH, a limited liability company (<i>Gesellschaft mit beschränkter Haftung</i>) organized under German law on July 8, 2009 and registered with the commercial register of the local court at Friedberg, Germany under HRB 6872, and an indirect wholly-owned subsidiary of our Company |
| “BFG-Niederrhein” | BFG Feinguss Niederrhein GmbH, a limited liability company (<i>Gesellschaft mit beschränkter Haftung</i>) organized under German law on September 18, 2001 and registered with the commercial register of the local court at Kleve, Germany under HRB 6028, and an indirect wholly-owned subsidiary of our Company |

DEFINITIONS

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| “BFGCZ” | the production plant located in the Czech Republic operated by BFG-Czech |
| “BFGH” | the production plant located in Germany operated by BFG-Hessen |
| “BFGM” | the production plant located in Germany operated by BFG-Niederrhein |
| “Board of Directors” or “Board” | our board of Directors |
| “Bosch” | Robert Bosch GmbH and its affiliates, a Germany-based multinational engineering and electronics company and a world’s major supplier of automotive components, being one of our major customers |
| “Business Day” | any day other than a Saturday, Sunday or public holiday in Hong Kong or days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. on which licenced banks in Hong Kong are generally open for business during their normal business hours |
| “Buy-back Mandate” | the general unconditional mandate granted to our Directors by our Shareholders in relation to the buy-back of our Shares, further information of which is set out in the section headed “Share Capital” in this prospectus |
| “BVI” | the British Virgin Islands |
| “CAGR” | compound annual growth rate |
| “Capitalization Issue” | the issue of 1,498,722,088 new Shares to be made upon capitalization of certain sum standing to the credit of the share premium account of our Company as referred to in the paragraphs under “A. Further information about our Group — 4. Resolutions of our Shareholders” in Appendix IV to this prospectus |
| “Caterpillar” | Caterpillar Inc., a world’s leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives |
| “Cayman Companies Law” | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| “Cayman Principal Registrar” | Conyers Trust Company (Cayman) Limited |

DEFINITIONS

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| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Clearing Participant” | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation |
| “CCASS Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “Cengiz Makina” | Cengiz Makina Sanayi ve Ticaret Anonim Sirketi, a limited liability company incorporated in Turkey on January 27, 1995 and converted into a joint stock company on November 30, 2004 and an indirect wholly-owned subsidiary of our Company |
| “China” or the “PRC” | The People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong and the Macau Special Administration Region of the PRC and Taiwan |
| “China Ping An” | China Ping An Insurance Overseas (Holdings) Limited, a company incorporated in Hong Kong on October 24, 1996 |
| “China Structural Reform Fund” | China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司), a company incorporated in the PRC held by several State-owned enterprises, and is mainly engaged in business including non-public fund raising, equity investment, project investment, capital management, investment consulting and enterprise management consulting, being the Cornerstone Investor |
| “CMTR-1” | the production plant located in Turkey operated by Cengiz Makina |
| “CMTR-2” | the new production plant which is under development located in Turkey operated by Cengiz Makina |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |

DEFINITIONS

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| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) |
| “Company” | Impro Precision Industries Limited (鷹普精密工業有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 8, 2008 |
| “Connected Grantees” | Grantees who are our executive Directors, namely Ms. WANG, Mr. YU Yuepeng, Ms. ZHU Liwei, and Mr. WANG Dong |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Impro Development and Mr. LU |
| “Cornerstone Investment Agreement” | the cornerstone investment agreement dated June 12, 2019 entered into between our Company, China Structural Reform Fund, Morgan Stanley Asia Limited, BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited, and AMTD Global Markets Limited, pursuant to which China Structural Reform Fund has agreed to subscribe for such number International Offer Shares at the Offer Price for HK\$220.0 million, further information on which is set forth in the section headed “Cornerstone Investment” in this prospectus |
| “Cornerstone Investor” | China Structural Reform Fund |
| “Cummins” | Cummins Inc. and its affiliates, a U.S. based multinational manufacturer of diesel and alternative fuel engines diesel and alternative-fueled electrical generator and related components, being one of our major customers |
| “Czech” or “Czech Republic” | the Czech Republic |
| “CZK” | Czech Koruna, the lawful currency of the Czech Republic |

DEFINITIONS

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| “Deed of Indemnity” | the deed of indemnity dated June 15, 2018 and entered into by our Controlling Shareholders in favor of our Group, further information of which is set out in the paragraphs under “E. Other information—Tax and other indemnities” in Appendix IV to this prospectus |
| “Deed of Non-Competition” | the deed of non-competition dated June 15, 2018 and entered into by our Controlling Shareholders and our executive Directors in favor of our Group, further information of which is set out in the section headed “Relationship with our Controlling Shareholders” in this prospectus |
| “Director(s)” | the director(s) of our Company |
| “Euro” or “EUR” | the lawful currency of the member states of the European Union |
| “Extraordinary General Meeting” | the extraordinary general meeting of our Company held on June 15, 2018 for the purpose of approving, amongst other things, the Global Offering and the Listing, the adoption of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, and other matters relating to the Global Offering and the Listing |
| “First Six-month Period” | the period of six months from the Listing Date |
| “Fourth Supplemental Deed” | the supplemental deed dated March 29, 2019 entered into among Impro Development, Mr. LU, Baring, and ASF Radio for, among others, amending the terms and conditions of the Investor Rights Agreement, further information on which is set out in the section headed “Our History and Development and Corporate Structure — Pre-IPO Investments” in this prospectus |
| “GAC” | General Administration of Customs of the PRC (中華人民共和國海關總署) |
| “GDP” | gross domestic product |
| “GE” | General Electric and its affiliates, a U.S. based multinational conglomerate company with operations in a variety of industries specializing in the development and manufacturing of products for the generation, transmission, distribution, control and utilization of electricity |

DEFINITIONS

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| “GE Capital” | GE Capital Equity Investments Ltd., one of our previous Shareholders, further information on which is set forth in the section headed “Our History and Development and Corporate Structure — Pre-IPO Investments” in this prospectus |
| “General Mandate” | the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information of which is set out in the section headed “Share Capital” in this prospectus |
| “Germany” | the Federal Republic of Germany |
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “Grantees” | the 161 grantees of the Pre-IPO Share Options, including the Connected Grantees, Grantees who are members of our senior management team and other Grantees who are our employees |
| “ GREEN application form(s)” | the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited |
| “Group” or “our Group,” “we” or “us” | our Company and subsidiaries |
| “GT Cedar” | GT Cedar Capital (Hong Kong) Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of China General Technology (Group) Holdings Company Limited (中國通用技術(集團)控股有限責任公司), a company incorporated in China, being one of the Pre-IPO Investors |
| “GT Cedar Lock-up Deed” | the lock-up deed dated June 12, 2019 entered into by GT Cedar in favour of our Company, Morgan Stanley Asia Limited, BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited, AMTD Global Markets Limited, Morgan Stanley & Co. International PLC, and DBS Asia Capital Limited in respect of the Shares held by GT Cedar |
| “Haimen Xinhai” | Haimen Xinhai Special Plating Company Limited (海門鑫海特種鍍飾有限公司), a limited liability company established in China on January 14, 2005, and an indirect wholly-owned subsidiary of our Company |

DEFINITIONS

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| “HK\$” or “Hong Kong dollars” or “HKD” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKSCC” | Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| “Honeywell” | Honeywell International Inc. and its affiliates, a U.S. based multinational conglomerate company that produces a variety of commercial and consumer products, engineering services and aerospace systems |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Offer Shares” | the 33,330,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering subject to re-allocation as described in the section headed “Structure of the Global Offering” in this prospectus |
| “Hong Kong Public Offering” | the offer for subscription of the Hong Kong Offer Shares by members of the public in Hong Kong (subject to re-allocation as described in the section headed “Structure of the Global Offering” in this prospectus) at the maximum Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering” in this prospectus |
| “Hong Kong Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Hong Kong Underwriters” | the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus |
| “Hong Kong Underwriting Agreement” | the underwriting agreement dated June 17, 2019 relating to the Hong Kong Public Offering entered into, among others, our Company, our Controlling Shareholders, and the Hong Kong Underwriters |

DEFINITIONS

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| “HUSCO” | HUSCO International, Inc. and its affiliates, a U.S. based multinational corporation engaging in the development and manufacturing of hydraulic and electro-hydraulic controls for off-highway, construction, material handling, agriculture, and automotive applications, being one of our major customers |
| “IFRS” | International Financial Reporting Standards promulgated by the International Accounting Standards Board, which include International Accounting Standards and their interpretations |
| “IMMX” | the production plant located in Mexico operated by Impro Industries Mexico |
| “Impro Aerospace Mexico” | Impro Aerospace Mexico, S. de R.L. de C.V., a company incorporated in Mexico on February 17, 2017 and an indirect wholly-owned subsidiary of our Company |
| “Impro Aerospace Wuxi” | Impro Aerospace Components (Wuxi) Co., Ltd. (鷹普航空零部件(無錫)有限公司), a wholly foreign-owned enterprise established in China on August 9, 2002 and an indirect wholly-owned subsidiary of our Company |
| “Impro China” | Impro (China) Limited (鷹普(中國)有限公司), a wholly foreign-owned enterprise established in China on May 12, 1995 and an indirect wholly-owned subsidiary of our Company |
| “Impro Development” | Impro Development Limited, a company incorporated in the BVI on June 29, 2004, with its entire share capital owned by Mr. LU, being one of our Controlling Shareholders |
| “Impro Europe” | Impro Europe SARL, a company incorporated in Luxembourg on May 29, 2012 and an indirect wholly-owned subsidiary of our Company |
| “Impro Germany” | Impro Germany GmbH, a limited liability company incorporated in Germany on May 2, 2003 and an indirect wholly-owned subsidiary of our Company |
| “Impro Holdings” | Impro Holdings Limited (鷹普控股有限公司), a company incorporated in BVI on December 22, 2016 and a direct wholly-owned subsidiary of our company |

DEFINITIONS

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| “Impro Industries Mexico” | Impro Industries Mexico, S. de R.L. de C.V., a company incorporated in Mexico on March 18, 2016 and an indirect wholly-owned subsidiary of our Company |
| “Impro International” | Impro International Limited (鷹普國際有限公司), a company incorporated in Hong Kong on June 16, 2000 and an indirect wholly-owned subsidiary of our Company |
| “Impro Investment” | Impro Investment (Hong Kong) Limited, a company incorporated in Hong Kong on March 22, 2012 and an indirect wholly-owned subsidiary of our Company |
| “Impro Metal-Tech” | Wuxi Impro Metal-Tech Co., Ltd. (無錫鷹普精密鑄造有限公司), a wholly foreign-owned enterprise established in China on March 31, 2004 and an indirect wholly-owned subsidiary of our Company prior to its de-registration on September 19, 2016 |
| “Impro Taizhou” | Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司), a wholly foreign-owned enterprise incorporated in China on June 30, 2006 and an indirect wholly-owned subsidiary of our Company |
| “Impro USA” | Impro Industries USA, Inc., a corporation incorporated under the laws of the State of California, the United States, with the articles of incorporation filed on November 25, 1998 and an indirect wholly-owned subsidiary of our Company |
| “Impro Yixing” | Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司), a wholly foreign-owned enterprise incorporated in China on April 19, 2006 and an indirect wholly-owned subsidiary of our Company |
| “Impro-Bees Bearing” | Wuxi Impro-Bees Precision Bearing Co., Ltd. (無錫鷹貝精密軸承有限公司), a wholly foreign-owned enterprise established in China on June 15, 2006 and an indirect wholly-owned subsidiary of our Company |
| “Impro-Bees Machinery” | Wuxi Impro-Bees Machinery Co., Ltd. (無錫鷹貝機械有限公司), a wholly foreign-owned enterprise established in China on December 6, 2000 and an indirect wholly-owned subsidiary of our Company prior to its merger into Impro-Bees Bearing completed on March 5, 2012 |

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| “Impro-Bees Plating & Painting” | Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司), a wholly foreign-owned enterprise established in China on August 31, 2004 and an indirect wholly-owned subsidiary of our Company |
| “Impress Impeller” | Impress Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司), a sino-foreign joint venture limited liability company established in China on February 12, 2011 and an indirectly owned subsidiary of our Company, which is owned as to 67.0% by Impro Yixing and 33.0% by Ross Casting which is an Independent Third Party |
| “Independent Third Party(ies)” | person(s) or company(ies) and their respective ultimate beneficial owner(s) who/which, to the best knowledge, information and belief of our Directors, having made all reasonable enquiries, is/are not connected with our Company or our connected persons |
| “International Offer Shares” | 299,970,000 Shares, being initially offered by our Company pursuant to the International Offering together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option, the number of which is further subject to re-allocation as described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Offering” | the offer of International Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, and outside the United States to institutional and professional investors in offshore transactions as defined in and in accordance with Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Underwriters” | the underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement |
| “International Underwriting Agreement” | the underwriting agreement relating to the International Offering and to be entered into among our Company, our Controlling Shareholders, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters on or about June 21, 2019 |
| “Investor Rights Agreement” | the investor rights agreement dated December 28, 2011 and entered into between Impro Development, Mr. LU, Baring and GE Capital |

DEFINITIONS

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| “Joint Bookrunners” and “Joint Lead Managers” | Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering), Morgan Stanley & Co. International plc (in relation to the International Offering), BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited, AMTD Global Markets Limited, and DBS Asia Capital Limited |
| “Joint Global Coordinators” | Morgan Stanley Asia Limited, BOCI Asia Limited, GF Securities (Hong Kong) Brokerage Limited and AMTD Global Markets Limited |
| “Joint Sponsors” | Morgan Stanley Asia Limited and BOCI Asia Limited |
| “Latest Practicable Date” | June 8, 2019, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus prior to its publication |
| “Listing” | the listing of our Shares on the Main Board |
| “Listing Committee” | the listing sub-committee of the board of directors of the Hong Kong Stock Exchange |
| “Listing Date” | the date, expected to be on or about June 28, 2019, on which dealings in our Shares first commence on the Main Board |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Lock-up Deeds” | the ASF Lock-up Deed, the Baring Lock-up Deed, and the GT Cedar Lock-up Deed |
| “Luxembourg” | the Grand Duchy of Luxembourg |
| “M&A Rules” | the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) promulgated on August 8, 2006, as amended on June 22, 2009, by MOFCOM, CSRC, and four other PRC regulatory agencies |
| “Main Board” | the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange |

DEFINITIONS

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| “Memorandum” or “Memorandum of Association” | the memorandum of association of our Company, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus, and as amended from time to time |
| “MEX\$” or “Mexican Peso” | the lawful currency of Mexico |
| “Mexico” | United Mexican States |
| “Modine” | Modine Manufacturing Company and its affiliates, a U.S. based corporation engaging in the development, manufacturing and marketing of engineered heat transfer systems and heat transfer components, being one of our major customers |
| “MOF” | Ministry of Finance of China (中華人民共和國財政部) |
| “MOFCOM” | Ministry of Commerce of China (中華人民共和國商務部) |
| “Mr. LU” | Mr. LU Ruibo (陸瑞博先生), previously known as Mr. LU Jianqiu (陸建秋先生), our founder, an executive Director, one of our Controlling Shareholders, and the spouse of Ms. WANG |
| “Ms. WANG” | Ms. WANG Hui, Ina (王輝女士), an executive Director and the spouse of Mr. LU |
| “NAFTA” | North America, Mexico and Canada for the purpose of this prospectus |
| “NDRC” | National Development and Reform Commission of China (中華人民共和國國家發展和改革委員會) |
| “NPC” | National People’s Congress of China (全國人民代表大會) |
| “Offer Price” | the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and the Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK\$3.30 and expected to be not less than HK\$2.80 which is expected to be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date |
| “Offer Shares” | the Hong Kong Offer Shares and the International Offer Shares |

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| “Over-allotment Option” | the option expected to be granted by our Company to the Joint Global Coordinators (acting for themselves and on behalf of the other International Underwriters) pursuant to which our Company may be required to allot and issue up to an aggregate of 49,995,000 additional Shares at the Offer Price, representing 15.0% of our Shares initially being offered under the Global Offering, to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering” in this prospectus |
| “Parker-Hannifin” | Parker-Hannifin Corporation and its affiliates, a U.S. based corporation specializing in motion and control technologies, being one of our major customers |
| “PBOC” | The People’s Bank of China (中國人民銀行) |
| “Ping An Group” | Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司) (stock code: 2318), a company incorporated in the PRC and listed on the Main Board of the Hong Kong Stock Exchange |
| “Ping An SPV” | CoInv Propel Company Limited, a company incorporated in the Cayman Islands on April 10, 2017 and an indirect wholly-owned subsidiary of China Ping An |
| “Ping An SPV Shareholders Deed” | the shareholders deed dated July 24, 2018 entered into among Impro Development, our Company, Mr. LU, and Ping An SPV, which was subsequently terminated by the Termination Deed |
| “Post-IPO Share Option Scheme” | the share option scheme conditionally approved and adopted by our Shareholders at the Extraordinary General Meeting, the principal terms of which are summarized in the paragraphs under “D. Share Option Schemes — 2. Post-IPO Share Option Scheme” in Appendix IV to this prospectus |
| “PRC CIT” | corporate income tax in the PRC |
| “PRC Company Law” | Company Law of the People’s Republic of China (中華人民共和國公司法), as enacted by the NPC on 29 December 1993 and effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time |

DEFINITIONS

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| “PRC Corporate Income Tax Law” | Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法), as promulgated by the standing committee of the NPC on March 16, 2007 and effective on January 1, 2008, and latest amended on December 29, 2018 and the Rules for the Implementation of Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), as promulgated by the state council on December 6, 2007 and effective on January 1, 2008 and latest amended on December 29, 2018 |
| “PRC government” or “State” | the central government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them |
| “Pre-IPO Investors” | Baring, GT Cedar, and ASF Radio |
| “Pre-IPO Share Option Scheme” | the share option scheme conditionally approved and adopted by our Shareholders at the Extraordinary General Meeting, the principal terms of which are summarized in the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus |
| “Pre-IPO Share Options” | the share options granted to the Grantees pursuant to the terms and conditions of the Pre-IPO Share Option Scheme, further information on which is set out in the section headed “Our History and Development and Corporate Structure — Pre-IPO Share Option Scheme” and the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus |
| “Price Determination Date” | the date, expected to be on or about June 21, 2019 but in any event no later than June 25, 2019, on which the Offer Price is to be determined by agreement between the Joint Global Coordinators (acting for themselves and on behalf of the Underwriters) and our Company |
| “Qualified Institutional Buyers” or “QIBs” | qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act |
| “Regulation S” | Regulation S under the U.S. Securities Act |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC |

DEFINITIONS

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| “Roland Berger” | Roland Berger Hong Kong Limited, an independent industry consultant |
| “Roland Berger Report” | an industry report dated April 25, 2019 on the world’s casting industry commissioned by us, issued by Roland Berger, a summary of which is set forth in the section headed “Industry Overview” in this prospectus |
| “Ross Casting” | Ross Casting and Innovation, LLC, one of the shareholders of Impross Impeller holding 33.0% equity interest in Impross Impeller and our connected person at subsidiary level |
| “Rule 144A” | Rule 144A under the U.S. Securities Act |
| “SAFE” | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| “SAFE Circular 13” | the Circular on Further Simplifying and Improving the Direct Investment-Related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by SAFE on February 13, 2015 |
| “SAFE Circular 37” | the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Roundtrip Investments by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by SAFE on July 4, 2014 |
| “SAIC” | The State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局) |
| “SAT” | PRC State Administration of Taxation (中華人民共和國國家稅務總局) |
| “Second Six-Month Period” | the period of six months commencing from the expiry of the First Six-Month Period |
| “Second Supplemental Deed” | the supplemental deed dated February 22, 2018 entered into among our Company, Impro Development, Mr. LU, Ms. WANG, Baring, and ASF Radio for, among others, the termination of the Pre-IPO Investor’s right to require either or both Controlling Shareholders to repurchase their Shares, further information on which is set out in the section headed “Our History and Development and Corporate Structure — Pre-IPO Investments” in this prospectus |

DEFINITIONS

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| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Share(s)” | ordinary share(s) with a nominal value of HK\$0.10 each in the share capital of our Company |
| “Share Option Schemes” | Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme |
| “Share Subscription Agreement” | the subscription agreement dated December 24, 2011 and entered into between our Company, Impro Development, Mr. LU, Baring, and GE Capital |
| “Shareholder(s)” | holder(s) of our Shares from time to time |
| “Shareholders Deed” | the shareholders deed dated December 28, 2011 and entered into between, Impro Development, our Company, Mr. LU, Baring, and GE Capital |
| “Shenhai Group” | Shenhai Industrial, Shenhai Investment and Haimen Xinhai |
| “Shenhai Industrial” | Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司) (formerly known as Nantong Shenhai Special Plating Company Limited (南通市申海特種鍍飾有限責任公司)), a limited liability company established in China on October 12, 2001, which is an indirect wholly-owned subsidiary of our Company |
| “Shenhai Investment” | Nantong Shenhai Investment Company Limited (南通市申海投資有限公司), a limited liability company established in China on February 5, 2013, which is an indirect wholly-owned subsidiary of our Company prior to its de-registration on November 30, 2017 |
| “Stabilizing Manager” | Morgan Stanley & Co. International plc |
| “State Council” | The State Council of the People’s Republic of China (中華人民共和國國務院) |
| “Stock Borrowing Agreement” | the stock borrowing agreement that may be entered into between the Stabilizing Manager and Impro Development on or about the Price Determination Date |
| “subsidiary(ies)” | has the meaning ascribed thereto under the Listing Rules |

DEFINITIONS

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| “substantial shareholder(s)” | has the meaning ascribed thereto in the Listing Rules |
| “Supplemental Deed” | the supplemental deed dated May 29, 2014 and entered into among our Company, Impro Development, Mr. LU, Ms. WANG, Baring, and GE Capital for amendments to, among others, certain terms in the Share Subscription Agreement, the Shareholders Deed, and the Investor Rights Agreement |
| “Takeovers Codes” | The Codes on Takeovers and Mergers and Share Buy-backs |
| “Termination Deed” | the termination deed dated March 29, 2019 entered into among our Company, Baring, Ping An SPV, ASF Radio, Impro Development, and Mr. LU in respect of the termination of the Baring Repurchase Undertaking and the Ping An SPV Shareholders Deed |
| “Third Supplemental Deed” | the third supplemental deed dated July 24, 2018 entered into among our Company, Impro Development, Mr. LU, Ms. WANG, Baring and ASF Radio for, among others, the postponement of the deadline of a qualified IPO to January 15, 2019, further information on which is set out in the section headed “Our History and Development and Corporate Structure — Pre-IPO Investments” in this prospectus |
| “Track Record Period” | the period comprising the three years ended December 31, 2018 |
| “Turkey” | the Republic of Turkey |
| “Turkish Lira” or “Lira” | Turkish Lira, the lawful currency of Turkey |
| “U.S. dollars” or “US\$” | United States dollars, the lawful currency of the United States |
| “U.S. Exchange Act” | the United States Securities Exchange Act of 1934, as amended |
| “U.S. Securities Act” | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “Underwriters” | the Hong Kong Underwriters and the International Underwriters |
| “Underwriting Agreements” | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| “United States” or “U.S.” | the United States of America |

DEFINITIONS

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| “Waiver Deed” | the waiver deed dated March 29, 2019 entered into among, Impro Development, our Company, Mr. LU, Baring, and ASF Radio in relation to the waiver of certain liabilities by the parties thereto against each other under the Shareholders Deed |
| “ WHITE Application Form(s)” | the Application Form(s) for use by members of the public in Hong Kong who require such Hong Kong Offer Shares to be issued in the applicant’s own name |
| “ White Form eIPO ” | the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk |
| “ White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited |
| “Wuxi Viking” | Wuxi Viking Impro Manufacturing Co., Ltd. (無錫威肯高速推進器製造有限公司), a cooperative joint venture established in China on May 12, 1995, which was converted into a wholly foreign-owned enterprise in November 2005 and changed its name to Impro China on August 8, 2006 |
| “Wuxi Yingzhan” | Wuxi Yingzhan Company Limited (無錫鷹展投資有限公司), previously known as 無錫鷹普模具製造有限公司, a limited liability company established in China on September 15, 1998 and a connected person |
| “ YELLOW Application Form(s)” | the Application Form(s) for use by members of the public in Hong Kong who require such Hong Kong Offer Shares to be deposited directly into CCASS |
| “%” | percentage or per cent |

In this prospectus, unless the context requires otherwise, certain amounts denominated in US\$, Euro, Lira, CZK, Renminbi, and MEX\$ have been translated into HK\$ at the then prevailing exchange rates. Such conversions shall not be construed as representations that amounts in US\$ or Euro or Lira or CZK or Renminbi or MEX\$ were or may have been converted into HK\$ at such rate or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English names of PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are for identification purpose only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus in connection with our Company. The meanings given to these terms may differ from meanings given to them by others in the industry.

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| “ABS” | Register of Shipping of American Bureau of Shipping, a classification society based in Houston, Texas, U.S. engages in development and verification of the standards for the design, construction and operational maintenance of marine-related facilities |
| “AS 9100” | an internationally accepted standard for aerospace quality management systems published by the Society of Automotive Engineers and the European Association of Aerospace Industries |
| “BS OHSAS 18001” | an international standard which sets out the requirements for occupational health and safety management good practice |
| “BV” | Register of Shipping of Bureau Veritas S.A., a global company based in Neuilly-sur-Seine, France engages in testing, inspection and certificate services and a member of International Association of Classification Societies |
| “CCS” | Register of Shipping of China Classification Society, a classification society based in Beijing, China establishes and maintains technical standards for the construction and operation of ships and offshore structures and a member of International Association of Classification Societies |
| “CNC” | computer numerical controls |
| “DNV” | Register of Shipping of DNV GL, an international accredited registrar and classification society headquartered in Oslo, Norway and a member of International Association of Classification Societies |
| “EDI” | electronic data interchange system, the computer-to-computer exchange of business documents in a standard electronic format between business partners |
| “EGR” | exhaust gas recirculation system |

GLOSSARY OF TECHNICAL TERMS

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| “HIBOR” | Hong Kong Interbank Offered Rate, the rate of interest offered on Hong Kong dollar loans by banks in the interbank market for a specified period as published by The Hong Kong Association of Banks |
| “ICE” | internal combustion engines |
| “ISO” | acronym for a series of quality management and quality assurance standards published by the International Organization for Standardization, a non-governmental organization based in Geneva, Switzerland, for assessing the quality systems of business organizations |
| “ISO 9001” | an internationally accepted standard for quality management systems published by the International Organization for Standardization |
| “ISO 13485” | an international quality management standard for the design and manufacture of medical devices published by the International Organization for Standardization. It encompasses aspects of the ISO 9001 standard and also includes industry-specific requirements for medical devices |
| “ISO 14001” | an internationally recognized standard for environmental management systems published by the International Organization for Standardization |
| “IATF 16949” | (formerly known as ISO/TS 16949) an international quality management standard for automobile supply chains published by the International Automotive Task Force. A company that already obtained ISO 9001 certification may upgrade to IATF 16949 certification by setting up additional documentation and procedures |
| “KR” | Korean Register of Shipping, a maritime classification society and a technical advisor to the maritime industry based in Busan, Korea and a member of International Association of Classification Societies |
| “LIBOR” | London Interbank Offered Rate, the rate of interest offered on loans by banks in the interbank market as published by the Intercontinental Exchange |

GLOSSARY OF TECHNICAL TERMS

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| “LR” | Register of Shipping of Lloyd’s Register Group Limited, a technical and business services organization and a maritime classification society based in London, the United Kingdom and a member of International Association of Classification Societies |
| “NADCAP” | the National Aerospace and Defense Contractors Accreditation Program, a global cooperative standards-setting program for aerospace engineering, defense and related industries |
| “NK” | Register of Shipping of Nippon Kaiji Kyoka, a ship classification society based in Tokyo, Japan and a member of International Association of Classification Societies |
| “OA” | office automation system, generally refers to the varied computer machinery and software used to digitally create, collect, store, manipulate, and relay office information needed for accomplishing basic tasks |
| “OEM(s)” | original equipment manufacturer(s) |
| “PED” | acronym for Pressure Equipment Directive 97/23/EC. PED sets out the standards for pressure equipment that are applicable to the European Union countries, including the standards for the manufacturing processes of components of pressure equipment. It has been mandatory throughout the European Union since May 2002 |
| “RINA” | Register of Shipping of Registro Italiano Navale, a classification society based in Genoa, Italy engages in ship classification and certification businesses and a member of International Association of Classification Societies |
| “RS” | Russian Maritime Register of Shipping, a marine classification society based in based in Saint Petersburg, Russia and a member of International Association of Classification Societies |
| “SAP ERP” | enterprise resource planning software developed by SAP SE, a German company, which incorporates various key business functions |
| “SKU(s)” | stock keeping unit, a unique identifier for each distinct product and service that can be purchased |

GLOSSARY OF TECHNICAL TERMS

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| “TPG” | Transportation and Power Generation accreditation program, a program developed by Performance Review Institute (PRI) based on the aerospace industry’s Nadcap program for the purpose of improving quality and reducing cost |
| “WMS” | warehouse management system, a software application designed to support and optimize warehouse or distribution center management |

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Group that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would” and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under the section headed “Risk Factors” in this prospectus and the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;

FORWARD-LOOKING STATEMENTS

- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. We caution you not to place undue reliance on any forward-looking statements or information.

In this prospectus, statements of or references to the intentions of our Group or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of our Shares could significantly decrease due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Global macroeconomic conditions and regional economies are subject to uncertainty, which could adversely affect our business, results of operations, financial condition and prospects.

We offer a broad range of casting components, machined parts and electroplating and related services to a diverse customer base. We have business presence in various locations across the world. We sell products to the United States, Europe, China and other parts of Asia, and we have developed worldwide supply, sales and logistics networks. As a result, our business is sensitive to the global macroeconomic conditions and regional economic conditions in such regions. Economic risks affecting any countries which we have production facilities in or sell our products to could adversely affect our results of operations and business prospects.

In recent years, the slowdown of economic growth in China and other major emerging markets, as well as the continuing weakness of the economic recovery in the United States and Europe, have resulted in continued uncertainty regarding global economic prospects. According to IMF, the United States' real GDP growth rate remained relatively low at 1.6% in 2016, 2.2% in 2017 and 2.9% in 2018, respectively, European Union's real GDP also grew slowly at the annual growth rate of 1.7% in 2016, 2.5% in 2017 and 2.2% in 2018, respectively. Meanwhile, after over three decades' fast growth, China's real GDP growth is slowing down. According to the statistics published by the Chinese government, China's real GDP growth rate was 6.7% in 2016, 6.8% in 2017 and 6.6% in 2018, respectively. An actual or anticipated deterioration of global economic conditions or regional economies may depress consumer confidence and spending in such regions, which may, in turn, adversely affect the underlying markets to which our products were sold to, such as automotive and general industrial machinery markets.

Moreover, the economies of the regions where we operate are subject to inflation. If the inflation rates in those regions where we locate our production facilities, such as China, Turkey, Germany and Mexico, increase significantly, our production costs are expected to increase accordingly. Furthermore, high inflation rate could have an adverse effect on such regions' overall economic growth, business climate and dampen consumer purchasing power, which could further materially and adversely affect our business, financial condition and results of operations and growth prospects.

Although some major economies have adopted economic stimulus measures to improve their macroeconomic conditions, and the Chinese government has continued to use monetary

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policy tool, formulated favorable policies towards innovative businesses and taken other measures to guide China's economic growth, there is no assurance that such measures will be effective, and uncertainties as to the prospects of the global economy remain. Any unfavorable macroeconomic conditions and uncertainties surrounding the global economy could have a material adverse effect on our business and prospects. Economic downturns, fluctuations in the value of local currency or adverse tax consequences in any of the countries where we have business operations could also negatively affect our financial results.

Our business largely depends on broader trends in our end-markets.

We sell products that serve various end-markets, including passenger cars, commercial vehicles, hydraulic equipment, construction equipment, agricultural equipment, aerospace, recreational boats and vehicles, medical and energy. Almost all of these end-markets are economically cyclical and are highly influenced by the global macroeconomic environment. In particular, a number of these major end-markets such as passenger cars, commercial vehicles and construction equipment are susceptible to consumer's spending power, infrastructure and real estate investments as well as government monetary and fiscal policies. Moreover, consumer's spending power in certain end-markets such as passenger cars and aerospace is indirectly affected by oil prices which fluctuate over time. In addition, changing market trends affected by various factors, such as evolving regulatory focuses, may also result in the fluctuation in demands for products utilizing our parts and components in such end-markets. Decreasing demands in our major end-markets such as the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018 could lead to declines in the demand for casting components and precision-machined parts used in these end-markets. Additionally, our business may also be adversely affected by negative publicity and news in our end-market, which in turn may result in rising negative public sentiment towards products for which we offer casting components and machined parts. Technology advancements in those end-markets may also change the customer demands, see "— We may not respond to technological changes in our industry or our end-markets in an efficient and timely manner" below for more details.

Factors affecting our end-markets are beyond our control. If any such factor occurs in the future which results in material slowdown of any or all of our major end-markets, or the growth of our end-markets is not sustained, or we are unable to respond timely to the market trend and technology development in our end-markets, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Changes in international trade policies and international barriers to trade may have an adverse effect on our competitiveness and expansion plans.

Changes to trade policies, treaties and tariffs in the jurisdictions in which we operate, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations. The U.S. administration under President Donald Trump has advocated greater restrictions on trade generally and significant increases on tariffs on goods imported into the United States,

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particularly from China, and has recently taken steps toward restricting trade in certain goods. The current U.S. administration has created uncertainty with respect to, among other things, existing and proposed trade agreements (including the renegotiation of North American Free Trade Agreement, or NAFTA, to better implement U.S. trade policy objectives, including through the potential addition of new provisions to address regulatory practices, state-owned enterprises, services, customs procedures, sanitary measures, labor, the environment, and other matters which may affect our business or the businesses of our customers), free trade generally, and potential significant increases on tariffs on goods imported into the U.S., particularly from Mexico, Canada and China. More specifically, on June 15, 2018, the U.S. Trade Representative published a list of products imported from China that are or could be subject to additional duty of 25% (the “**Initial List**”). The list covers two sets of US tariff lines with a first set consisting of 818 lines, including certain of the Group’s products exported to the United States during the Track Record Period. Additional duties have been applied to the first set tariff lines from July 6, 2018 onwards. The list also includes a second set of tariff lines which was finalised in August 2018 to include 279 tariff lines and additional duties apply to these tariff lines from August 23, 2018 onwards. On September 17, 2018, the U.S. Trade Representative finalized and published an additional list of products imported from China with an annual trade value of approximately US\$200 billion that would be subject to additional tariff (the “**New List**”). The rate of such tariff on products included in the New List is 10% effective from September 24, 2018, and would be increased to 25% from January 1, 2019 onwards. It was also reported that the United States was considering to announce tariffs on additional US\$267 billion worth of Chinese products. However, on December 1, 2018, it was announced by the White House that the rate of the tariff on products included in the New List will remain at 10% pending negotiations between the PRC and the United States on structural changes with respect to among other things, technology transfer, intellectual property protection and agriculture, and the previously threatened additional tariffs will not be imposed. After several rounds of trade talks among the governments of China and the United States, on February 24, 2019, President Trump announced that he would extend the original March 1 trade deal truce deadline with respect to the increase of the tariff from 10% to 25% under the third list. The rate of tariff was increased to 25% with effect from May 10, 2019. For illustrative purposes only, approximately 30.4%, 30.7% and 32.0% of the Group’s total sales for the financial years ended December 31, 2016, 2017 and 2018, respectively, were derived from products exported to the United States that are included in the Initial List and the New List. Assuming additional tariff at the rate of 25% in respect of the Initial List and the New List were levied throughout the Track Record Period and based on the U.S. imported prices and sales volume of the relevant products, the additional amounts of tariff incurred by the Group would have been HK\$159.8 million, HK\$197.1 million and HK\$246.9 million, respectively, and based on the U.S. imported prices and sales volumes of the relevant products, the net profit of the Group would have been HK\$207.4 million, HK\$237.3 million and HK\$203.0 million, respectively, and the net profit margin of the Group would have been 8.1%, 7.8% and 5.4%, respectively, for the financial years ended December 31, 2016, 2017 and 2018.

The U.S.-China trade tension remains and it is uncertain any further measures will be taken. We will strive to leverage our global footprint and collaborate with our customers to mitigate our adverse exposure to such tariff lines mainly by passing on the additional tariff to our customers. In this regard, we have entered into good faith negotiations with our customers

RISK FACTORS

individually and we have been able to pass the additional tariff partially or in full to our customers depending on factors including the price competitiveness of the products we supply to them and the potential of the business volume growth for the customers. For the year ended December 31, 2018, the total amount of additional tariff levied on our products was approximately HK\$31.1 million and approximately HK\$11.8 million of such additional tariff was borne by our Group. In addition, we also believe the adverse impact of the additional tariff would be partially offset by the depreciation of Renminbi as we typically generate our revenue in U.S. dollars or Euro from the export products. Accordingly, we do not believe the additional duties will have a material impact on our financial results. Although we intend to actively seek measures to mitigate our adverse exposure to such additional duties, there is no assurance that our measures will be timely effective, or at all. Furthermore, even if we were able to pass on the additional tariff to our customers, our customers may consider our products to be less competitive in terms of price resulting in reduction of sales orders and possibly material adverse effect on our business and results of operations.

In addition, in response to the above mentioned additional U.S tariffs, China has announced several rounds of tariff plans, subject to subsequent revisions, on various goods imported from the United States. Total Chinese tariffs applied exclusive to the United States amounted to approximately US\$110 billion. China may announce further plans to introduce tariffs on goods imported from the United States. Further, in August 2018, China filed two WTO complaints against the United States' tariffs on certain Chinese goods. Such policy reactions could ultimately result in further trade policy responses by the United States and other countries, and result in an escalation leading to a trade war, which would have an adverse effect on manufacturing levels, trade levels and industries, and may result in a material and adverse effect on our business and results of operations.

In early June 2019, the President of the United States announced the imposition of a 5% tariff on all goods imported from Mexico, to address the crisis of illegal immigrants crossing the Southern border into the United States and the tariff rate will be progressively increased to 25% if Mexico has not in the interim period taken action to dramatically reduce or eliminate the number of illegal aliens crossing its territory into the United States. It was announced that on June 7, 2019 that the United States has reached agreement with Mexico and the tariffs against Mexico are indefinitely suspended. For illustrative purposes only, assuming the tariff was imposed throughout the Track Record Period at the rate of 25% and based on the U.S. imported prices and sales volume of the relevant products, the additional amounts of tariff incurred by the Group would have been nil, approximately HK\$1.7 million and HK\$9.0 million for the years ended December 31, 2016, 2017 and 2018, respectively and the resulting impact on the net profit of the Group would have been minimal.

Changes to U.S. laws or policies (as described above or otherwise) may impact the supply chain strategies of, as well as the pace of outsourcing by, U.S. customers in the future, including the possibility of such customers insourcing products or components that were previously outsourced (including to companies like us). This could have an adverse impact on our business and expansion plans.

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If we are not able to implement our production capacity expansion plans or effectively manage our capacity expansion, our results of operations, financial condition and prospects could be materially and adversely affected.

Our operations involve complex and heavy machines at each step of the production flow, and many of them are potentially costly. As we intend to expand our overall production capacity for each of our business segments, we expect ourselves to continue to invest in new facilities and equipment. In addition, to maintain our competitiveness, we may also need to upgrade and debottleneck our existing equipment and facilities from time to time. Our expansion plans may involve various risks such as uncertainties relating to market demands, and we cannot guarantee that our expansion plans will be carried out without failure or delay, nor can we provide the assurance that the demand for our products will increase in line with the increase in production capacity in the future. If we cannot recoup the increased costs for the production expansion, our business, results of operations and financial condition could be materially and adversely affected. The implementation of our production capacity expansion plans requires us to commit significant resources including:

- significant capital expenditures for the construction of plants, purchase and installation of equipment;
- effective financial and management controls supported by, among other things, sound information technology systems;
- managerial resources and technical as well as operational expertise; and
- hiring and training of new production personnel.

We may not be able to meet all the above requirements for production capacity expansion and technology development. In particular, we may not be able to secure sufficient financing to fund the significant capital expenditures required for construction of plants and installation of new equipment. In 2016, 2017 and 2018, our capital expenditures amounted to HK\$448.1 million, HK\$365.5 million and HK\$567.7 million, respectively, the majority portion of which was applied for our productions expansion and upgrades. We estimate that our capital expenditures will be approximately HK\$581.9 million in 2019. See “Business — Production — Production Facilities — Our Capital Expenditure and Capacity Expansion Plans” for details about such expansion plans and our sources of funding. We cannot assure you that we will always be able to obtain the financing required to fund such capital expenditures for the implementation of our production capacity expansion plans within the prescribed timeframe, or at all, please also refer to “— We operate in a capital-intensive industry. Inability to obtain financing in a timely manner or at reasonable and commercially acceptable terms for our operation and future expansions may have a significant adverse influence on our business, financial condition and result of operations.” In addition, if the growth of our business is slower than we expected, over-expansion of our production capacity may result in lower production utilization rate, which may have a significant adverse impact on our gross profit margin.

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Our sales are dependent on a number of major customers. Our revenue and profitability could be materially adversely affected if we fail to maintain relationships with any of our major customers.

We rely on the business relationships with our major customers. In 2018, we provided products and services to over 1,000 customers worldwide. In 2016, 2017 and 2018, our five largest customers accounted for 34.6%, 40.4% and 44.0%, respectively, of our total revenue, while our largest single customer accounted for 12.4%, 15.1% and 13.8% of our total revenue during the same periods.

We do not maintain long-term supply agreements with all of our major customers, where no long-term agreement exists, we supply products and provide services on an order-by-order basis. We cannot assure you that we will be able to continue to supply products and provide services to our major customers at the current levels on similar terms, or at all. Moreover, our business is affected by the businesses and financial performance of our major customers which, in turn, depend on, to a significant extent, the sustained growth of the end-markets in which they operate and their ability to compete in such end-markets. Any interruption or deterioration in the businesses or financial performance of our major customers could lead to a delay in payment or a decline in their purchase orders placed with us or a change in their business relationships with us.

If any of our major customers terminates its relationship with us or significantly reduces its orders with us due to financial hardship, business interruption, industry slowdown in which it conducts business, change of its product portfolio or any other reasons, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our efforts to expand our business in those end-markets with high growth prospects and high margins may not achieve our expected results, and there are risks associated with the adjustment or expansion of product offerings.

One of our business strategies is to penetrate and optimize our business in end-markets with stronger growth prospects and higher margins, such as aerospace and medical end-markets. However, as we entered into such end-markets later than some of our major competitors, we currently may be in a less competitive position in these end-market segments and may have fewer customers or other resources than those competitors. We cannot assure you that we will be successful in enhancing our competitiveness in those end-markets with stronger growth prospects. Moreover, as those end-markets with stronger growth prospects and higher margins typically require products with better quality under higher technical standards, we may incur substantial costs in connection with the adjustment and expansion of our product offerings, such as the costs of expanding, upgrading and otherwise de-bottlenecking our production facilities, enhancing our research and development capabilities and production techniques, recruiting and training additional staff. We may not be able to recover these costs. If our efforts to increase our market share in those end-markets with high growth prospects prove to be unsuccessful, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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We are required to obtain and maintain approvals, permits, licenses and certifications, including industry-specific quality management certifications, for our operations, procedures of which could be costly and time consuming. Any loss of such permits, licenses and/or certifications, could adversely affect our business, financial condition, results of operations and prospects.

We are required to obtain and maintain certain approvals, permits, licenses and certifications for our operations, including but not limited to environmental impact assessment, pollutant discharge permits and other permits or license in the compliance with national and local environmental protection laws and regulations applicable in China, Turkey, Germany, the Czech Republic and Mexico. See “Business — Licenses and Permits” for more details.

These licenses or permits are essential to the operation of our business and are generally subject to periodical review and renewal by the relevant government authorities. However, we cannot assure you that we can successfully renew these licenses or that these licenses are sufficient to conduct all of our present or future business. Moreover, as we further develop and expand our operations, we may need to obtain additional approvals, permits, licenses and certifications. New and more stringent laws and regulations may be adopted from time to time by authorities of jurisdictions where we operate. As such, we may be required to obtain additional approvals, permits, licenses and certifications in order to comply with such new and stricter laws and regulations. If we fail to obtain or maintain any of the required licenses or approvals, our operations may be interrupted or restricted, or we may be subject to potential penalties. Any such interruption or penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

In particular, since the performance, quality, precision and safety of our products are critical to our customers, our ability to obtain and maintain certain industry-specific quality management certification are critical for our business relationship with these customers in certain end-markets, such as aerospace and medical. The effectiveness of a quality management system depends on various factors, including the design of the system, the quality of training programs and the system to ensure our employees’ adherence to our quality management policies and guidelines. The standards for these quality management certifications may be replaced or become more stringent in the future, and we cannot assure you that we will be able to renew all of these certifications when they are replaced by new certifications or become expired. To complete the procedures to obtain new certifications or maintain current ones may be costly and time consuming. In addition, some of our existing or potential customers, such as those in aerospace industry, have internal requirement for developing business with or are required to order products only from suppliers that are accredited with these certifications. They may also have specific internal procedures and standards that potential suppliers need to meet. Accordingly, if we fail to effectively maintain the quality management system or renew any of our quality management certifications, or pass the specific internal procedures and standards, these customers may cease to place orders with us or reduce orders placed with us, and we may be unable to develop business relationships with potential customers who require or prefer their suppliers holding these certifications.

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Raw material prices may fluctuate and we may not be able to timely or fully pass on increases in raw material prices or risks to customers.

As we manufacture our products from various metallic materials, such as stainless steel, alloy steel and iron, as well as other consumables, our business is dependent on our ability to source sufficient quantities of these raw materials of satisfactory quality and on acceptable terms. In 2016, 2017 and 2018, our raw material and consumables costs were HK\$562.2 million, HK\$730.8 million and HK\$929.5 million, respectively, representing 31.6%, 35.3% and 36.6%, respectively, of our cost of sales. The price of the raw materials may be influenced by factors that are beyond our control, including market supply and demand for these metallic materials and the geographic politics and changing political environments in the regions where we make procurements.

We generally do not maintain long-term supply agreements with major suppliers or maintain large quantities of inventories of metallic materials. Instead, we purchase most of these raw materials at spot prices in the domestic markets where our production facilities are located. Nor have we entered into any raw material hedging arrangements. If the prices of our major raw materials increase significantly or suddenly in the future and we are unable to secure supply of raw materials at satisfactory prices or unable to pass increased costs in a timely manner to our customers, our profitability and hence financial performance may be adversely affected.

There is no guarantee that we will be able to timely or fully pass on the costs associated with increases in raw material prices or the currency exchange rates to customers in all circumstances. Moreover, the price adjustment mechanisms that are in place with certain of our customers are subject to certain conditions, which may further restrict our ability to fully and timely pass the increased costs on to customers. We may not be able to pass the increased costs on to customers if the increases in currency exchange rates or the price of the raw materials are below a certain threshold level specified in the relevant agreement. In addition, the implementation of the price adjustment provisions requires our staff to closely monitor the raw material prices and currency exchange rates and the impacted prices. We cannot assure you that we have adequate resources to monitor the currency exchange rates and the impacted prices at all times.

We are subject to risks associated with our international businesses and operations.

We have established a worldwide footprint by locating our 15 production plants in China, Turkey, Germany, the Czech Republic and Mexico, which are supported by nine sales offices in China, North America, Luxembourg, Turkey, Germany and Hong Kong, as well as warehousing capacities in China, North America, Luxembourg and Turkey. As we continue to expand our operations globally, we will face risks associated with our international operations, including but not limited to:

- distraction of our management and increase of additional costs and expenses;
- inability to exert effective control over our subsidiaries worldwide;

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- lack of experience and limited local resources;
- increasing regulatory requirement and compliance risks and costs that we may become subject to;
- trade restrictions;
- import and export licensing requirements;
- changes in tariff rates;
- double taxation and other potentially adverse tax consequences;
- transportation delays; and
- currency fluctuations.

Any of the foregoing factors could have a material and adverse effect on our ability to operate and expand our international operations.

Our profitability is subject to pricing pressures which could be negatively affected by cost reduction programs of our customers.

We operate in a fragmented and competitive industry which may subject us to pricing pressure. We may consider to lower our prices in response to the competition in our industry, which could have an adverse effect on our business and results of operations. In particular, when one or more of our competitors engage in active price reductions, we may be forced to reduce our prices in order to remain competitive, which may negatively affect our revenue and profitability.

During the Track Record Period, under the supply agreements we entered into with certain customers in passenger car and commercial vehicle end markets, we were committed to offer price reduction gradually over the term of the agreements. In addition, we agreed with some customers to reduce prices in the event that volume of the relevant products purchased by these customers reached a certain level. Such pricing terms may materially and adversely affect our profit margins and may, along with any future increase in raw material prices, pose challenges to our cost management. If we have to reduce the prices of our products to remain competitive in the future but cannot offset such reductions through improving production efficiency, cost savings or increased sale volumes or the introduction of competitive new products, our profitability may be materially and adversely affected.

Our growth strategy includes growth via strategic acquisitions which entail risks. Our acquisitions and other restructuring initiatives may fail to achieve the anticipated synergy and benefits.

Historically, we expanded our business operations partially through strategic acquisitions, see “Our History and Development and Corporate Structure — Development of Our Group” for more details. Going forward, we will continue to implement our “Twin Growth Engines” strategy in pursuing business expansion through organic growth as well as through strategic acquisitions.

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We may not be able to continue to identify any suitable target of strategic acquisitions that is complementary to our business. Even if we identify such target, we cannot assure you that we will be able to obtain the necessary financing or regulatory approvals from relevant authorities, if required, for the acquisition or acquire such target on terms and conditions acceptable to us. Furthermore, even if we may complete an acquisition, the chance of a successful and continuous management of the acquired business is also dependent on various factors, some of which are beyond our control. We cannot assure you that we will be able to successfully integrate any acquired business that we undertake or that such acquisitions will achieve the desired strategic objectives, business integration goals or expected synergies and return on investments.

Successful and continuous management of the acquired businesses involve a number of risks, including, but not limited to, the following:

- difficulty in integrating the operations, personnel, information system and other aspects of the acquired business into our operations or realizing any expected cost savings or other synergies from the acquisitions;
- difficulty in operating in a new market or environment and navigating new regulatory regimes;
- difficulty in retaining employees and customers and integrating customer base;
- unrevealed potential liabilities or risks associated with the acquired businesses;
- the need to incur additional indebtedness, which may reduce our cash available for operations and other uses due to increased interest payment and debt repayment obligations;
- adverse effects on our results of operations due to the potential impairment provision for goodwill and/or the amortization or other intangible assets associated with acquisitions, and losses sustained by the acquired businesses after the date of acquisitions;
- difficulty in maintaining uniform standards, controls, procedures and policies and overcoming differences in corporate cultures; and
- distraction of our management's time and significant strain on our management, internal controls and information technology systems and resources.

Moreover, strategic acquisitions may also increase our exposures to additional risks, such as foreign exchange, political and labor union related risks, due to the expanded geographic coverage of our operations. Any of the abovementioned factors may have adverse effects on our results of operations and financial condition.

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Other than strategic acquisitions, we may also contemplate other restructuring initiatives, such as closure or combination of existing businesses, as we deem appropriate in order to further streamline our operations, better control costs and improve operational efficiency. However, there is a risk that the anticipated benefits of such restructuring initiatives may not be fully realized, or the restructurings prove to be more costly than initially expected. There may also be other unintended results due to the future restructuring initiatives, such as the loss of major customers or experienced senior management and other skilled employees of the business to be closed or combined. Each of the above incidents may have an adverse effect on our results of operations and financial condition.

We recorded significant goodwill relating to our historical completed acquisitions. If our goodwill is determined to be impaired, our profit could be adversely affected.

As of December 31, 2016, 2017 and 2018, our goodwill amounted to HK\$571.3 million, HK\$626.0 million and HK\$457.3 million, accounting for approximately 12.4%, 11.7% and 8.2% of our total assets, respectively. Our significant goodwill of HK\$457.3 million as of December 31, 2018 was due to the acquisitions we completed prior to the Track Record Period. We recognized an impairment loss of goodwill of HK\$141.2 million in 2018 as a result of the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018 and latest 2019 outlook. Please refer to “Financial Information — Critical Accounting Policies and Estimates — Goodwill” for details. We may be required to record a significant charge to earnings in our financial statements in the future if our management determines our goodwill to be impaired, which could materially and adversely affect our profit.

In order to determine whether our goodwill is impaired, we are required, among other things, to assess the expected future cash flows that we will derive from the relevant assets. We conduct the annual review on our goodwill and the impairment loss may be recognized in profit or loss if the carrying amount of the relevant assets exceeds their recoverable amount. Please refer to Note 14 in the Accountants’ Report in Appendix I to this prospectus for further information.

We may not compete effectively and may lose our leading market position.

We operate in a fragmented and competitive market and face competition in each of our business segments. Some of our competitors may have more advanced technologies, greater production capacity and manpower and other resources, stronger financial strengths, better established customer base, more diversified product offerings, more established brand names and market recognition. Therefore, such competitors can more promptly respond to evolving industry standards and changes in market conditions than we can. They may also have stronger bargaining power to influence market pricing, and have the advantage over us in securing the necessary key raw materials at times of shortages. Intense competition will subject us to pricing pressure which may squeeze profit margins with respect to some of our products and services and reduce our revenue. Please also refer to “— Our profitability is subject to pricing pressures which could be negatively affected by cost reduction programs of our customers.” If we fail to compete effectively or maintain our competitiveness in the market, our business, results of operations and prospects will be materially and adversely affected.

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Moreover, we face increasing competition from new comers. There are typical barriers-to-entry, including advanced technologies and know-how, requisite licenses and certificates, capital investments, well established customer relationships as well as the ability of offering one-stop solutions. Nevertheless, new market entrants or existing competitors may seek to develop or acquire the requisite technical capabilities and customer base through substantial investments to compete with our existing business. In addition, increased exposure to international markets further creates new areas with which we may not be familiar with and could place us in competition with new market players. We cannot assure you that we will be successful in adapting into the new competitive environment and we may lose our current leading market position.

We may not respond to technological changes in our industry or our end-markets in an efficient and timely manner.

The production technologies and processes employed in the precision component industry are subject to continuous evolutions and changes, and we are required to respond adequately and promptly to these evolutions and changes to remain competitive. Our competitors may replicate current technologies we utilize or products we offer, or develop more advanced or cheaper alternatives. In addition, as we strategically focus on manufacturing high-precision, high-complexity and mission-critical casting and machined components, our products may be required to meet increasingly demanding requirements in light of product specifications and performance parameters. In the past, our proprietary manufacturing technologies and processes enabled us to produce market-leading products for our customers, which placed us in a competitive position. We believe our proprietary manufacturing technologies and processes will be critical to our ability to continuously improve the quality and performance of our products and to serve our customers. However, we cannot assure you our research and development activities will result in the successful development of new technologies or processes or new products at reasonable costs, in a timely manner, or at all. If we fail to adapt to the technological changes in the industry in an efficient and timely manner, or if our manufacturing technologies and processes are rendered obsolete, we may not be able to produce products and provide services that meet our customers' evolving needs or adapt to the market trends or enable us to effectively compete with our competitors, in which case our business, financial positions, results of operations and prospects could be materially and adversely affected.

Moreover, we face increasing pressure and competition from the changing market trends and customer preference in our end-markets resulting from technical improvements. For example, development of new energy vehicles, or NEVs, in the long run may lead to a reduction in demand for internal combustion engines, which in turn, may adversely affect the investment casting industry. Similarly, increasing adoption of additive manufacturing technologies may challenge the traditional investment casting industry. If our current technologies or products are eventually replicated, replaced or rendered obsolete due to any new emerging end-market applications, our market position will suffer and our business, financial condition, results of operations and prospects could be materially and adversely affected.

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Unavailability of our key raw materials may materially harm our profitability and interrupt our business operations.

In 2016, 2017 and 2018, 7.6%, 9.0% and 7.6%, respectively, of our cost of sales were sourced from our five largest suppliers and 2.3%, 3.0% and 2.4%, respectively, of our cost of sales were sourced from our largest supplier. Although we believe we currently do not rely on any single supplier, we are unable to assure you that our major raw materials are available at all times, or at all. In case of a shortage of any key raw materials, if we are unable to promptly find alternative supplies, our production activities will be adversely interrupted. Furthermore, we are required by certain customers to purchase certain raw materials used in manufacturing their products such as specialty alloys and steel for manufacturing precision-machined parts from their designated suppliers, or from suppliers selected from their pre-approved supplier lists. As a result, we may not be able to secure the best prices available on the market for these raw materials or to secure adequate quantity if the capacity of such designated suppliers is limited.

We may fail to maintain effective quality control and may be subject to product warranty and product liability claims which may have a material adverse effect on our reputation, business, results of operations, financial condition and prospects.

The performance and quality of our products are critical to the success of our business, and depend significantly on the effectiveness of our quality control systems, which in turn, relies on a number of factors, including the design of such quality control systems, our quality training programs, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our reputation, business, financial condition and results of operations.

Our business carries inherent risks of subjecting us to product warranty and product liability claims. Many of our products are critical components of sophisticated industrial machinery and equipment. We typically provide a warranty period of two to three years in our product supply agreements with customers. If our products fail to meet the contractual quality standards, we may be required to accept the return or replacement of such products, and compensate customers based on these agreements. Furthermore, our products are widely used in a variety of industries, including passenger cars, commercial vehicles, aerospace, construction equipment, medical and energy, many of which involve significant public interest and safety concerns. Although we do not directly enter into contractual arrangements with such end users in those industries, we are liable to indemnify our customers against any claims or losses to the extent that a defect in the manufacturing of our products, including defects in material and manufacturing processes or techniques, caused personal injury or loss of, destruction or damage to property, according to the relevant supply agreements. Meanwhile, we may also be exposed to other claims and product recalls related to product quality. Although we did not experience any product recall or material product claims during the Track Record Period and up to the Latest Practicable Date, if we were found to be liable for material quality defects or malfunctions of our products in the future, we may incur substantial legal and financial liabilities. Any such claims could damage our reputation and result in a

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decrease in our sales to the relevant customers. Regardless the merits of the claim, if we are required to defend any claims or litigations related to product liability claims, it may require significant financial resources and the time and attention of our management. The successful assertion of product warranty and product liability claims against us could require us to pay significant monetary damages.

Furthermore, product warranty and product liability claims may result in legal proceedings being instituted against us and as a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims.

The discontinuation of any of the preferential tax treatments or government subsidies currently available to our PRC operating subsidiaries could adversely affect our results of operations, financial condition and prospects.

Some of our PRC subsidiaries have obtained the qualification as a New and High-Tech Enterprise and are entitled to the preferential tax rate of 15% for a certain period. See “Financial Information — Components of Our Statements of Profit or Loss — Income Tax.” The qualification of a New and High-Tech Enterprise of Jiangsu Province is subject to review by the relevant PRC authorities every three years. There can be no assurance that the relevant subsidiaries will be able to maintain such qualification after the existing terms of their qualifications expire, or the current favorable tax policies available to such subsidiaries will not be withdrawn or revoked by the relevant PRC authorities or become less favorable. If there is changes to the preferential tax treatments applicable to us, our past post-tax financial results may not be relied upon as indicators of our future performance. If the current preferential tax treatments are no longer available in the future, our business, financial condition and results of operations may be materially and adversely affected.

In addition, in 2016, 2017 and 2018, we received unconditional government subsidies which were recorded as other revenue in the amount of HK\$20.2 million, HK\$9.4 million and HK\$27.2 million, respectively, as encouragement for technology development, environmental protection, employment stabilization and contribution to local economy. The amounts of and conditions attached to such subsidies were determined at the sole discretion of the relevant PRC authorities. We cannot assure you that we will continue to receive such government subsidies or that the amount of any such subsidies will not be reduced in the future. Even if we continue to be eligible to receive such subsidies, we cannot guarantee that any conditions attached to the grants will be as favorable to us as they have historically been. During the years ended December 31, 2016, 2017 and 2018, we recognized other conditional government subsidies in the amount of HK\$2.5 million, HK\$2.9 million and HK\$2.9 million for acquisition of machinery, respectively, in the statements of profit or loss when related conditions were satisfied. Moreover, we recognized subsidies of HK\$118.9 million for the relocation of our Plant 3 in 2016. We also incurred relocation expenses in the amount of HK\$56.0 million in 2016, in connection with such relocation. Those subsidies in relation to the relocation of our production plants are non-recurring in nature. Reduction or discontinuation of these government subsidies could adversely affect our financial condition and results of operations.

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We may be subject to additional tax liabilities in connection with our transfer pricing arrangements, which could have adverse impacts on our financial condition.

During the Track Record Period, we carried out certain intra-group transactions, mainly intra-group sales of finished goods. For more details about our transfer pricing arrangements, please refer to “Business — Transfer Pricing Arrangements.”

Our profit allocation and income tax positions in the jurisdictions in connection with such transfer pricing arrangements are subject to the interpretations by relevant tax authorities of applicable tax law as well as applicable rules and regulations with respect to transfer pricing in these jurisdictions. Significant judgment and the use of estimates are required in determining our profit allocation and income tax positions in terms of our transfer pricing arrangements. Although our independent tax advisor is not aware of any significant transfer pricing tax risk, and considers that our Group’s transfer pricing arrangements during the Track Record Period are generally reasonable, there is no assurance that the respective tax authorities would not challenge the appropriateness of our transfer pricing arrangements or that the relevant regulations or standards governing such arrangements will not be subject to future changes. If a competent tax authority of a relevant jurisdiction later determines that the transfer prices and the transaction terms that we have adopted as well as our historical income tax provisions and accruals are not appropriate, such authority may require the relevant subsidiaries to re-assess the transfer prices and re-allocate the income or adjust the taxable income. If we are considered not to be in compliance with the applicable transfer pricing rules and regulations, the relevant tax authority may also have the power to order us to pay all outstanding tax and statutory interest or fines.

We face rising labor cost and incur expenses or financial damages from any employee strikes if we cannot maintain satisfactory relationship with our employee or the labor unions which they belong to.

We depend on our employees for our operations. As of December 31, 2018, we had a total of 7,482 employees and 258 dispatched workers. Labor cost in the jurisdictions where we operate our production plants have been increasing in recent years and our labor cost is expected to continue to increase in the future as our business continues to grow and we may need to offer more competitive compensation packages to attract and recruit more skilled and experienced employees.

In addition, most of employees in Germany, Turkey, and Mexico were covered by collective bargaining agreements and were members of the industrial trade unions or labor unions. We are subject to the pressure to renegotiate and renew these collective bargaining agreements with local trade unions or labor unions from time to time and the terms and considerations may not be in our favor. We may incur increasing costs to execute and perform renewed collective employee contracts. If we fail to maintain satisfactory relationships with our employees or the labor unions which they belong to, we may experience labor strikes, work stoppages or other labor disputes, See “Business — Employees — Trade Unions and Collective Bargaining Agreements.” Any labor strikes or work stoppages could cause

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significant disruptions to our operations which, depending on the scale of the event, may lead to a material and adverse impact on our financial condition and results of operation. Meanwhile, negotiation of collective bargaining agreements with labor unions could result in higher ongoing labor costs for us.

In January 2018, the Turkish Employers Association of Metal Industries, the employers' association of which Cengiz Makina is a member, and Birlesik Metal, a labor union in Turkey members of which include employees of Cengiz Makina, negotiated and entered into a collective bargaining agreement, which, among others, agreed a wage increase for members of Birlesik Metal due to the continuing domestic inflation. See "Business — Employees — Trade Unions and Collective Bargaining Agreements." Although the impacts on our financial results due to the increased wages as a result of the renewed collective bargaining agreements were immaterial, we cannot assure you that there will not be similar incidents in the future in Turkey or other regions where we have operations which may adversely affect our business, financial condition and results of operations.

Personal injuries or fatal accidents may occur at our production plants, which may subject us to administrative penalties and compensation claims, and could materially and adversely affect our reputation, business and financial results.

In the course of our operations, we rely on our employees to adhere to and follow all safety measures and procedures we have stipulated. Despite that however, there remain risks of personal injuries or even fatal accidents in our production plants, especially when our employees fail to comply with our safety measures, our management fails to provide adequate trainings or design and implement proper safety policies and measures.

During the Track Record Period, there was one fatal accident at one of our PRC plants. Although we believe the incident was a result of the negligence of the relevant employee, we were found partially liable for such accident by the relevant government authority. We were fined a penalty in the amount of RMB250,000 and had also made compensation payments of approximately RMB800,000. Please refer to "Business — Regulatory Compliance — Fatal Accident in PRC Plant" for more details. In addition, during the Track Record Period, we also experienced a number of other minor workplace accidents, involving employees and dispatched workers, each of which was immaterial and related to the failure to operate equipment in accordance with the safety manuals or failure to use protective equipment. We were not penalized by any government authorities in connection with these minor accidents but made compensation payments to those injured employees in the total amount of approximately RMB150,000.

We have implemented enhanced internal control and workplace safety measures after these accidents. However, we cannot guarantee that material workplace accidents or fatal accidents will not occur in the future. In that case, we may be subject to government investigations and administrative penalties. Even if such accidents were not caused by our fault or negligence, such accidents may still cause us to incur substantial costs and damage to our reputation, such as negative publicity, which may materially and adversely affect our business and financial results.

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We face increased costs in complying with worker safety and labor regulations.

Our operations involve various heavy-duty and complex machines. As a result, we are subject to a broad range of laws and regulations governing workplace safety. We expect our compliance expenses to increase over time as a result of increasingly stringent workplace safety regulations in China and other countries where we operate our production facilities. Moreover, any changes to or increase in requirements in the applicable laws and regulations may consequently increase our operational costs. Any failure to comply with such laws and regulations could result in fines, penalties or liabilities that may materially and adversely affect our financial condition and cause reputational damage to our business.

In addition, we have entered into labor service agreements with independent third party labor service companies in the PRC and Germany to engage dispatched workers for our production. See “Business — Employees — Dispatched Workers.” Pursuant to these agreements, the labor service companies are required to instruct these dispatched workers to follow our management’s directions for day-to-day work assignments. However, since these dispatched workers are not directly employed by us, we have limited control over them. If the dispatched workers fail to act in accordance with our business directions or policies, our business operations could be materially and adversely affected. We pay these labor service companies agreed fees for the provision of the services and these companies shall pay to the dispatched workers their remuneration, social security and healthcare contributions. However, under the PRC Labor Contract Law, if we violate the PRC Labor Contract Law and such violation results in damages to the dispatched workers, we and the labor service companies would be jointly and severally liable for the compensation payable to the dispatched workers. A similar principle applies in Germany.

We may incur substantial costs in complying with stringent environmental laws and regulations.

Our production generates waste water, solid waste, noise, dust, air pollutants, sewage and other industrial waste at different stages of production process. As a result, our operations are subject to various national and local environmental laws and regulations as well as governmental oversight. The environmental laws and regulations impose stringent standards on our handling and disposal of solid waste, emission of water and emulsified waste, and airborne emissions. Moreover, our operations may be subject to further oversight and supervision by local governments. Therefore, we may face increased costs in efforts to comply with the applicable environmental requirements and standards. In addition, future changes in the scope, application and interpretation of the environmental laws and regulations as well as governmental oversight may limit or restrict our production capacity and/or substantially increase our costs in connection with the installation of additional pollution control or safety improvement equipment or other related expenses, and thus adversely affect our financial condition and results of operation.

As environmental laws and regulations as well as governmental oversight in China and other countries become more stringent or heightened over time, we cannot assure you that we will be in compliance with these laws and regulations at all times. For example, during the

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Track Record Period, we have had a few minor incidents of non-compliance which related to environmental impact control and measures. The fines imposed on us were immaterial and our business operations had not been materially affected. However, failure to meet the applicable environmental requirements and standards in the future could lead to serious fines, penalties, sanctions and liabilities as well as substantial costs in connection with remedial measures which may materially and adversely affect our financial condition and results of operations.

Furthermore, local governments could order emergency shutdowns of our operations to curtail pollution without advance notices. Such actions will result in unexpected business interruptions or suspension of operations at our plants and may lead to significant financial and reputational losses if we cannot find suitable alternatives to fulfill orders in time. If our insurance coverage cannot adequately cover such losses or liabilities, we would be financially responsible for such losses or liabilities, which could result in a material and adverse impact on our business, results of operations and financial condition.

Any government investigations targeting us or any breach by us of applicable export control laws in jurisdictions where we have business operations could have a material adverse effect on our business and harm our reputation.

We provide products and services to customers all over the world. In addition, our manufacturing activities are largely order-oriented; we may manufacture products subject to the specifications requested by our customers based on the drawings and documentation they provide to us. Therefore, we may be subject to investigations and penalties regarding the exportation or exchange of information contained in technical drawings and other documents if there is any information contained therein that is controlled by applicable export control laws in the relevant jurisdiction.

In 2016, Impro USA was informed by one of its U.S. customers that certain request for quotes (“RFQ”) it previously provided to Impro USA which were subsequently shared with our subsidiaries in China and Hong Kong for quotation contained certain technical drawings which were considered to be controlled by the Export Administration Regulations and should not have been forwarded into China without an export license. Impro USA subsequently identified four instances of improper exportation. In August 2017, the Office of Export Enforcement, or OEE, issued a Warning Letter to Impro USA. No monetary penalty was imposed by OEE and no further action was taken by the authority up to the Latest Practicable Date. For more details about these export control matters, please refer to “Business — Regulatory Compliance.”

As we continue our global expansion, we may from time to time be exposed to the risk of similar non-compliance incidents with the export control laws of the countries where we operate or where our customers are located. We may also be subject to other government investigations relating to export control. If we are found not to be compliant with such export control laws, or if we become the subject of any other material government investigations, our business could be materially adversely affected. In particular, government investigations could be costly and time-consuming to defend, and could have a negative effect on our reputation, the morale of our employees, and our relationships with regulators. If an investigation

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identifies potential or actual violations of applicable export control laws, we may also be subject to substantial fines, sanctions, civil or criminal penalties, competitive or reputational harm, litigation or regulatory action and other consequences that might adversely affect our results of operations, financial condition or strategic objectives.

A material disruption to the operation of our production facilities could materially and adversely affect our financial condition and results of operations.

Our production facilities are located in various countries across the globe. We cannot assure that there will be no disruptions to the operations of our production facilities in the future. If operations at any of our facilities are materially disrupted as a result of fires, equipment failure, natural disasters, work stoppages, power outages, explosions, adverse weather conditions, political turmoil, trade disputes, transport logistics, labor disputes, workforce restructuring or other factors, our financial condition and results of operations could be adversely affected. The occurrence of any of these events could also require us to make significant unanticipated capital expenditures.

Our production processes depend on the stable supply of electricity, natural gas and water as key sources of energy. If we encounter any future shortage of supply of electricity, natural gas and water, our production may be interrupted which may materially and adversely affect our business, financial condition and results of operations. Meanwhile, any fluctuation in prices of electricity, natural gas or water in the future may negatively affect our production cost and our profitability, which may have a significant impact on our business, financial condition and results of operations.

Interruptions in production could increase our costs and delay our delivery of products, which may further subject us to penalties or other liabilities under the relevant purchase agreements. Production suspensions caused by such disruptions could cause a reduction in sales or delay in sales recognition. Lost sales or increased costs arising from such disruption of operations may not be recoverable under our existing insurance policies and prolonged business disruption could result in a loss of customers. If any one or more of the above risks were to materialize, our business, financial position, results of operations and prospects may be adversely affected.

We may not be able to accurately forecast customer demand, which could cause additional costs and difficulty in inventory management. It may also render us unable to fulfill our customers' orders.

Our business and financial performance depend on our ability to maintain a reasonable production utilization rate and level of inventory in order to timely respond to customer demands and to optimize cost control at the same time. We generally purchase raw materials and manufacture based on confirmed purchase orders as well as projected sales. Our projected sales are based on our forecast and may not accurately reflect the actual demands of our customers. Our customer demands may vary depending on a number of factors which are beyond our control, such as our customers' production plans and the changes in demand for our customers' products.

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If we cannot accurately forecast our customer demands, we may incur costs associated with over-expansion of our production facilities and overstock inventory. We may also incur additional warehousing and logistics costs. Failure to anticipate increasing customer demands, on the other hand, may result in insufficient production capacity and understock inventory which may render us unable to fulfill our customers' orders or deliver products to our customers in a timely manner.

We manufacture on an order-by-order basis. We cannot assure you that we are able to maintain our production utilization rate at the optimal level at all times, and schedule our raw material procurement, production and delivery arrangements that accurately meet our customers' requirements. Our customers may cancel or delay their orders under the relevant purchase agreement. As such, we may be exposed to increased inventory risks as we may accumulate excess inventory of our products or raw materials resulting from such cancellation or delay. Since almost all of our production is based on purchase orders and we may not resell our inventories to other customers if the original orders are cancelled, such cancellation may result in the write down of our inventories which may adversely affect our financial performance. As of December 31, 2016, 2017 and 2018, we had write-down of inventories in the amount of HK\$35.6 million, HK\$47.6 million and HK\$48.3 million, respectively, mainly due to lower net realizable value of certain aged inventories.

On the other hand, if we fail to fulfill customers' orders or delay in product delivery due to insufficient production capacity or raw material inventory, our reputation and relationships with our customers may be harmed and we may incur additional costs and expenses, such as higher freight costs, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business and competitive position may be harmed if we fail to effectively protect our intellectual property rights, trade secrets or know-how.

Certain key patents, trade secrets or know-how related to our production, sales and marketing are important to our business and competitive position. We rely on a combination of patent and trade secret laws, confidentiality and non-compete agreements with our employees and other methods to protect these intellectual property rights, trade secrets and know-how. As of the Latest Practicable Date, we had 297 registered patents in China, covering certain key technologies used in our production process. We also have a number of patent applications pending approval in China. The process of seeking patent protection could be costly and time-consuming and our patent applications may be unsuccessful. Even if we are successful in obtaining these patent rights, we cannot assure you that our existing and future patents will provide sufficient protection for our business and our competitive position. Our patents and patent applications may also be challenged, invalidated or circumvented in the future.

We rely on non-disclosure provisions in certain confidentiality and non-compete agreements with our employees to protect our customer information, trade secrets and know-how. If any of these employees breach their non-disclosure obligations, we may not have adequate remedies in China, and our trade secrets and know-how may become known to our competitors.

We rely on non-disclosure provision in the confidentiality and non-compete agreements with our employees to protect our customer information, trade secrets and know-how.

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However, policing unauthorized use of sensitive customer information, proprietary technology or trade secrets is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position. In addition, a significant part of our operations is in China. Implementation of PRC privacy laws and intellectual property-related laws has historically been difficult and inefficient, primarily because of ambiguities in the PRC laws and difficulties in their enforcement. Accordingly, if any of our employees breaches their non-disclosure obligations, actions taken by us to protect our sensitive customer information, trade secret and know-how may not be effective.

We may be exposed to infringement or misappropriation claims by third parties that, if determined adversely against us, could cause us to pay significant damages, disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our success depends largely on our ability to use and develop our technology, trademarks, copyrights, know-how and other intellectual properties used in our production, sales and marketing activities without infringing the intellectual property rights of third parties. As we continue to expand our international markets and gain greater brand name awareness in the global precision component industry, we face a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties' proprietary rights. Many of our current and potential competitors have made, and will continue to make, substantial investments in developing competing technologies, and have or may obtain patents that may prevent, limit or interfere with our ability to make, use or sell our existing or future products in China or to other countries. The validity and scope of any claims relating to our intellectual property rights involve complex legal and factual questions and analyses and, therefore, the outcome may be uncertain. In addition, the defense of these claims would be both costly and time-consuming, and could significantly divert the efforts and resources of our management and technical personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party could cause us to:

- pay damages;
- seek licenses from third parties on unfavorable terms;
- pay ongoing royalties; or
- be restricted by injunctions.

Any of these factors could prevent or restrict us from pursuing some or all of our business and result in our existing or potential customers deferring or limiting their purchase or use of our products, which could materially and adversely affect our financial condition and results of operations.

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Leakage or unauthorized use of customers' proprietary information may adversely impact our relationship with customers and we may be liable to our customers for such leakage or unauthorized use.

We manufacture customized products for customers, and provide ongoing engineering support to customers to help them optimize their product designs. We also actively participate in our customers' product development and work closely with customers from the initial stage of their product design and development, such as prototype development, to after-sale services. Owing to such nature of our business, we are from time to time granted access to customers' trade secrets, technical know-how and other proprietary information. Under our non-disclosure agreement, supply agreements with customers, and specific project cooperation agreements with certain customers, we are under an obligation to maintain the confidentiality of customers' proprietary information and not to make unauthorized use of such information. Although we believe we have taken commercially reasonable measures to prevent unauthorized disclosures and use of customers' proprietary information, there could be no assurance that such measures are effective at all times. In particular, we have a large number of research and development team members who serve customers from different locations, and there can be no assurance that these staff will not breach their obligations owed to us to keep customers' proprietary information confidential at all times. If we are found liable to any customer for leakage or unauthorized use of the customers' proprietary information, we may be required to pay compensation to the customer, as a result of which our business, results of operations and reputation may be materially and adversely affected.

Our insurance coverage may not be sufficient to cover the risks related to our operations or any losses.

We maintain insurances against certain risks associated with our business operations including property insurance, general commercial liability insurance, as well as insurances covering workplace safety, business interruption and other risks. See "Business — Insurance" For more details. Our insurance coverage may not be sufficient to cover the risks related to our operations. Although some of our PRC operating subsidiaries and BFG Group carry insurance addressing damages arising out of accidents at our production facilities, these existing insurances maintained by us may not be sufficient to cover our losses or damages arising from accidents relating to our operations or products, either due to exclusions of liabilities by the insurers or for other reasons. For example, although we maintain insurance addressing damages to and destructions of our facilities and equipment, such insurance generally excludes losses arising out of certain types of natural disasters and malicious damage from the coverage. In addition, to our knowledge, there are certain types of losses, such as losses from war, terrorism and certain natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. We have not made any provision for reserves for these liabilities and contingencies.

If any insured or uninsured damages or personal injuries occur to us, our employees and/or third parties, our operations may be interrupted, and we may not be able to recover all our losses from our insurers, or at all. In such case, our business, financial condition and results of operations may be materially and adversely affected.

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If we cannot engage or replace our subcontractors on acceptable terms, or if our subcontractors fail to provide quality and satisfactory services, our reputation, financial condition and results of operations may be materially and adversely affected, and we may be subject to claims from and/or liabilities to our customers.

To better manage our production cost and complement our production capability and capacity, we subcontract certain of our non-core and relatively simple production processes, to a number of subcontractors. These subcontractors are Independent Third Parties. In 2016, 2017 and 2018, our total subcontracting fees were HK\$125.6 million, HK\$129.7 million and HK\$190.9 million, respectively, representing 7.1%, 6.3% and 7.5%, respectively, of our cost of sales. If we cannot engage or replace our subcontractors on acceptable terms, or if our subcontractors fail to provide quality and satisfactory services in the future, our business and results of operations may be materially and adversely affected, and we may be subject to claims from and/or liabilities to our customers. See “Business — Subcontractors” for details.

We operate in a capital-intensive industry. Inability to obtain financing in a timely manner or at reasonable and commercially acceptable terms for our operation and future expansions may have a significant adverse influence on our business, financial condition and result of operations.

We operate in a capital-intensive industry as we are required to make substantial upfront investments, including but not limited to in production machinery and equipment, human resources and research and development activities. In addition, we also require capital for our future production expansions and strategic acquisitions. During the Track Record Period, we primarily funded our operations from cash generated from operations, external bank loans and finance leases. However, there can be no assurance that the cash flow generated from our operations will be sufficient to fund our future operations and expansion plans, nor can we assure you that we may always be able to timely or fully obtain additional external financing on satisfactory or commercially acceptable terms, or at all. Our ability to obtain adequate external financing on commercially acceptable terms will depend on a number of factors, including our financial performance and results of operations, as well as other factors beyond our control, including the global and regional economies, interest rates, the applicable laws, regulations, rules and conditions in connection with our industry and the underlying industries of our customers in the geographical regions where we operate. As such, if we fail to obtain the desired financing in a timely manner or at commercially acceptable terms, our business and operations may suffer and the implementation of our expansion plans or potential acquisitions may be delayed.

We rely on the performance of our information technology systems, the failure of which could have an adverse effect on our operations and performance.

We have implemented our SAP ERP system across most of our production plants, which cover most of our major operating processes, from supply chain management, production workflow, quality control, to finance and human resource management. We have also implemented an integrated OA system, which enables our online approval mechanism and provides a transparent environment for data-sharing among all entities of our Group. In

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addition, our EDI system allows real-time order, pricing and invoicing information connection and interexchange with certain customers' information technology systems and our WMS system ensures efficient inventory management. We are in the process of establishing a new enterprise resource planning system, or SAP HANA system, as well as developing our "Impro Operation System".

Stable, continuing and uninterrupted performance of our information technology systems is critical to the success of our global operations and future business strategies. Any damage or failure that interrupts or delays our operations may dissatisfy customers and could have a material adverse effect on our business. Some of our information technology software were licensed from third parties. If these licenses are discontinued or become invalid or unenforceable, there can be no assurance that we will be able to develop substitute for this software independently or to obtain alternative sources at acceptable prices or in a timely manner. Any delay in obtaining or developing substitutes for licensed software could have a material adverse effect on our business operations.

Moreover, if the Internet connection in the areas where we operate is temporarily disconnected or otherwise restricted due to technical difficulties or political reasons, our Internet-based information technology systems may not function properly and our business may be adversely affected.

Our success depends on the continued service of our senior management team and other skilled and experienced personnel. The loss of any of these individuals could adversely impact our business and financial condition.

Our success depends on the continued service of our executive directors, senior management team and other skilled and experienced personnel. Led by our founder, we have established a stable management team, which includes our executive directors and senior management who have served us for over 11 years on average. If one or more of our senior management or other skilled and experienced personnel, such as key employees in research and development department, customer service and marketing department, are unable or unwilling to continue their services to us, we may not be able to find suitable replacements promptly or at all, and may have to incur additional expenses in recruiting and training new personnel, which may severely disrupt our business, affect our results of operations and future prospects and inhibit our ability to grow. In addition, as our business continues to grow in China and abroad, it may be desirable for us to expand our senior management team. However, competition for qualified senior management candidates with sound understanding of our industry, domestic and overseas operation experience, and well-established customer relationships is intense. If we fail to recruit and retain new talents for our senior management team, our growth may be adversely affected.

Our business and results of operations may be materially and adversely affected if we fail to retain or hire qualified engineering staff and production personnel.

The success of our products depends on our capacity to maintain a sufficient number of high-quality personnel for our product processing and quality management functions. Each of

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these departments requires the continued service of our current skilled engineering staff and our ability to recruit additional skilled engineering staff in the future. As of December 31, 2018, we had 572 engineering staff. Competition in hiring skilled engineering staff in regions where we locate our production facilities is intense as the demand for high-quality engineering staff grows rapidly. If we fail to retain or recruit high-quality engineering staff, we may experience difficulties in employing new production techniques, expanding production capacities or maintaining product quality, which may in turn materially and adversely impact our business, results of operations and our reputation.

In addition, a large part of our business is labor intensive. As of December 31, 2018, we employed 5,494 production workers to operate our facilities. Due to our complex production process, it normally takes a few months to train a newly employed worker to acquire necessary skills, and skilled and experienced workers are not easily and quickly replaceable. As a result, if a significant portion of these production workers terminate employment with us in a short period of time, we may encounter interruption to our production, which would have a material adverse effect on our operations.

We may incur additional indebtedness in the future and we may not be able to generate sufficient cash to satisfy our outstanding and future debt obligations.

Historically, we incurred substantial indebtedness, primarily for the completion of our strategic acquisitions. As of December 31, 2016, 2017 and 2018, we had total borrowings of HK\$1,909.2 million, HK\$1,893.9 million and HK\$1,930.3 million, respectively. As of the same dates, our net borrowings (being our interest-bearing financial liabilities less interest bearing investments, excluding cash held for short-term working capital purposes) in aggregate amounted to HK\$1,717.9 million, HK\$1,648.5 million and HK\$1,692.6 million, respectively. During the Track Record Period, we maintained a net gearing ratio at 86.8%, 65.2% and 63.1% in 2016, 2017 and 2018, respectively. Our indebtedness could have a significant impact on our business and prospect, including without limitation to:

- increasing our vulnerability to adverse general economic and industry conditions or regulatory policies;
- requiring us to dedicate a substantial portion of our cash flow from operations to servicing and repaying the indebtedness, thereby reducing our cash flow available for funding our working capital, capital expenditures and for other general corporate purposes;
- limiting our flexibility in planning for or reacting to changes in our business and the industry in which we operate due to the various covenants we are subject to;
- limiting our ability to borrow additional funds;
- increasing our costs of additional financing; and

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- placing us at a competitive disadvantage compared to our competitors with a lower level of indebtedness than us.

We may from time to time incur substantial additional indebtedness and contingent liabilities, in which case the risk associated with our indebtedness will intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations depends on our future business performance, which is affected by many factors that are beyond our control. If we are not able to generate sufficient cash flow to service our debts, we may be forced to reduce or delay our capital expenditures, dispose of our assets or restructure or refinance our indebtedness, which may, in turn, have an adverse effect on our business, results of operations and financial condition.

We are exposed to currency exchange risks.

Our consolidated financial information contained in this prospectus is expressed in Hong Kong dollars. In our daily operations, a majority of our revenue is denominated in U.S. dollars, Euro and Renminbi, while a substantial majority of our cost of sales and operating expenses is denominated in Renminbi, Turkish Lira and Euro. Our current indebtedness is primarily denominated in Renminbi, U.S. dollar, Euro and Hong Kong dollar.

The exchange rates between Renminbi, Hong Kong dollar, U.S. dollar, Euro and Turkish Lira and any other currencies are subject to fluctuations. The value of Renminbi against Hong Kong dollar, the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China's economic and currency policies. For example, in August 2015, PBOC, the Chinese central bank, changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. In 2016, the value of Renminbi depreciated approximately 6.8% against the U.S. dollar, while in 2017, the value of Renminbi appreciated approximately 5.8% against the U.S. dollar and in 2018, the value of Renminbi depreciated approximately 5.0% against the U.S. dollar. Also, in 2016, 2017 and 2018, Turkish Lira depreciated against the U.S. dollar by approximately 17.4%, 6.9% and 28.3%, respectively, whereas Euro depreciated against U.S. dollar by approximately 3.6% in 2016 and appreciated against the U.S. dollar by 13.4% in 2017 and depreciated against U.S. dollar by approximately 4.2% in 2018. It is difficult to predict how market forces or the PRC or U.S. government policies, including any interest rate increases by the Federal Reserve of the United States, may impact the exchange rate between Renminbi and the U.S. dollar in the future. In addition, historically, the value of Turkish Lira against the U.S. dollar and Euro also fluctuated. There are uncertainties as to the future movements of each of Renminbi and Turkish Lira against the U.S. dollar, Euro and other currencies. In addition, the exchange rates between Euro, U.S. dollar against Hong Kong dollar, our functional currency, may also fluctuate significantly. The fluctuation in exchange rates already resulted in foreign exchange gain of HK\$13.7 million, loss of HK\$36.1 million and loss of HK\$17.9 million for the financial years ended December 31, 2016, 2017 and 2018, respectively, in consolidated statement of profit or loss. For the same periods, the Company recognized exchange difference on translation of financial statements of entities with

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functional currencies other than Hong Kong dollars of loss of HK\$151.4 million, gain of HK\$249.6 million and loss of HK\$155.4 million, respectively, in other comprehensive income. Please refer to “Financial Information — Factors Affecting Our Results of Operations and Financial Condition — Foreign Currency Exchange Rate” for details.

The depreciation of any currency in which our revenue is denominated against another currency in which our expenses are paid or our indebtedness is denominated could result in cost volatility for us or weaken our ability to repay such indebtedness, which may, in turn, materially and adversely affect our financial condition and results of operations.

We may be subject to credit risk in collecting account receivables due from our customers.

Our sales are generally made on credit terms of 15 to 120 days from the billing date and normally we do not obtain collateral from our customers. There is no assurance that all such amounts due to our Group will be collected and settled on time. Bankruptcy or deterioration of the credit condition of our major customers could also materially and adversely affect our collection of the account receivables from them. During the Track Record Period, our trade and bills receivable turnover days were 78 days, 80 days and 83 days, respectively. As of December 31, 2016, 2017 and 2018, our gross trade and bills receivables amounted to approximately HK\$568.0 million, HK\$773.1 million and HK\$942.0 million, respectively, and we made provision for write-down of trade and bills receivables of HK\$18.6 million, HK\$16.9 million and HK\$22.5 million as of December 31, 2016, 2017 and 2018, respectively. Our performance, liquidity and profitability may be adversely affected if significant amounts due to us are not settled on time and we may need to incur additional significant write down.

Factors that restrict, limit or otherwise have a negative impact on China’s exports could have a material adverse effect on our business, financial condition, results of operations and prospects.

A substantial part of our revenue is derived from sales to customers outside China. In 2016, 2017 and 2018, approximately 78.0%, 78.1% and 77.1%, respectively, of our revenue was derived from sales of products distributed outside China and a substantial portion of our products manufactured at our plants in the PRC are exported to overseas customers. As a result, factors that restrict, limit or otherwise have a negative impact on China’s exports could materially and adversely affect our business, financial condition, results of operations and prospects. These factors include, among others:

- any appreciation in the value of Renminbi against the currencies of major importing countries and regions;
- a slowdown in the economies of the United States, Europe and other major importing countries and regions;
- the expiry of preferential tax treatments for our export products;

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- increases in raw material production and labor costs in China;
- industry-specific quotas, tariffs, non-tariff barriers, taxes, anti-subsidies and anti-dumping measures that may be imposed by major importing countries on our export products, and trade disputes between China and its major exporting countries; and
- PRC regulatory restrictions that may have the effect of limiting exports from China.

Furthermore, there have been increasing concerns on the relationships among China and other Asian countries as well as the relationship between China and the United States, which may result in or intensify potential conflicts in relation to territorial, regional security and trade disputes. For instance, the United States has expressed a desire to re-examine the trade relationship with China. Any continuing or worsening slowdown could significantly reduce domestic commerce in China, adversely affecting the manufacturing industry involving substantial export in particular.

Our prospects may be adversely affected by acts of war, terrorism, civil unrest, riots, natural disasters, pestilence, or acts of God.

We could be adversely affected by any negative developments or uncertainties resulting from acts of war, civil unrest, riots, natural disasters, pestilence or acts of God. The occurrence of war, civil unrest and riots could impede administration and management, cause damages to infrastructures necessary to our operations and impact all aspects of our business. Natural disasters, pestilence and other acts of God which are beyond our control may adversely affect the global economy, infrastructure and people's livelihood. The countries or regions in which we operate and to which our products are sold may be under the threat of flood, earthquake, rainstorm or drought. In addition, past occurrences of pestilence, depending on their scale, have caused different degrees of damage to the global economy. A recurrence of Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, H1N1 influenza or H7N9 avian influenza virus or an outbreak of any other pestilence in any countries or regions around the globe may result in material disruptions to our operations and our sales and marketing efforts, which in turn may adversely affect our business, financial condition and results of operations.

Our non-IFRS financial measures set out in this prospectus may be calculated differently by investors and other market participants.

Adjusted NPAT and adjusted NPAT margin included in this prospectus are not recognized measures of financial performance under IFRS. Our management uses these unaudited non-IFRS financial measures in its analysis of our operations. For the definitions of our adjusted NPAT and adjusted NPAT margin and reconciliation of our profit for the year under IFRS to such non-IFRS financial measures, see "Financial Information — Non-IFRS Financial Measures" for more details.

These unaudited non-IFRS financial measures are not necessarily comparable to similar measures that may be presented by other companies and they may be calculated differently

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by investors and other market participants. Therefore, comparison of such measures with other companies may not be meaningful. Investors should not consider these measures as alternatives to any measures determined in accordance with IFRS or as being indicative of funds available to fund our cash needs, including our ability to make distribution to our Shareholders.

Changes in existing laws and regulations, political and regulatory conditions and the imposition of new laws, regulations, policies, restrictions and other entry barriers in jurisdictions in which we operate may adversely affect our business, results of operations, financial condition and prospects.

Political and regulatory risks affecting any countries in which we have production facilities in or sell our products to could adversely affect our results of operations and business prospects.

Failure to comply with the existing laws and regulations or political conditions of the jurisdictions in which we operate could result in various adverse consequences, including civil or criminal liabilities and the prosecution of personnel overseeing our international operations. As such, we may be subject to risks of imposition of conditions on or the suspension of our operations in such jurisdictions or the sale of our products, or seizure of our products, or significant penalties on or claims against us. In the event that the countries in which we operate increase the stringency of such laws and regulations, our operating costs may increase and we may not be able to pass these additional costs onto our customers. In addition, potential trade protection or restrictive measures in favor of local manufacturers of competing products such as anti-dumping and anti-subsidy duties on our products, including tax benefits, governmental subsidies and other measures giving local manufacturers a competitive advantage over us, may also adversely impact our operating results and business prospects in such countries. Political turmoil and the resulting violence in places where we have production facilities may result in long-term political uncertainty and significantly deteriorated economic outlook in such places, which may cause disruptions to our operations and adversely affect our business, financial position, results of operations and prospects.

Further, in the event that any jurisdiction in which we operate plans or imposes any new laws, regulations, policies, restrictions on our business or other barriers to entry, our ability to expand may be limited and our growth and development may be materially and adversely affected. We may also incur increasing costs to comply with such new laws, regulations or policies.

RISKS RELATING TO OUR CORPORATE STRUCTURE

Our Company has been, and will continue to be, controlled by our Controlling Shareholders, whose interests may differ from those of other shareholders.

As of the Latest Practicable Date, Mr. LU owned, through Impro Development, 75.85% of our issued and outstanding Shares. Immediately following the completion of the Global Offering (without taking into consideration our Shares that may be issued pursuant to the

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exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), Mr. LU, through Impro Development, will own 62.06% of the issued Shares. Our Controlling Shareholders are able to control our operation and influence the selection of our senior management. Therefore, Mr. LU will have significant influence with respect to matters relating to:

- our business strategies and policies;
- amendments to our constitutional documents;
- the timing and amount of dividend payments;
- mergers or other business combinations;
- acquisitions or dispositions of assets; and
- issuance of any additional Shares or other equity securities.

However, the interests of our Controlling Shareholders may differ from the interests of other Shareholders, and may therefore take actions in the future that are not in the best interests of other shareholders.

We may rely on dividends and other distributions on equity paid by our operating subsidiaries across the globe to fund cash and financing requirements. Limitations on the ability of our operating subsidiaries in the PRC to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely partly on dividends and other distributions on equity paid by our operating subsidiaries across the globe for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses.

Under PRC laws and regulations, our PRC subsidiaries are subject to different dividend policies. PRC subsidiaries are required to set aside 10% of their after-tax profits each year to fund a statutory surplus reserve which is not distributable as dividends until the accumulated amount of such reserve has exceeded 50% of the registered capital of the PRC subsidiary. Moreover, wholly foreign-owned enterprises are required to set aside certain amount from their after-tax profits of the preceding year as bonus and welfare funds for their employees, a percentage of which shall be determined by board resolutions. As a result of these PRC laws and regulations, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. Limitations on the ability of our PRC subsidiaries to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

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RISKS RELATING TO THE PRC

PRC economic, political, social conditions as well as government policies could adversely affect our business, prospects, financial condition and financial results.

We conduct substantial part of our business operations in the PRC. The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- political structure;
- level of the PRC government involvement and control;
- growth rate and level of development;
- level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. We cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to curtail certain segments of the economy, including the real estate industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. Any loans by us to our other PRC subsidiaries to finance their activities, which cannot exceed statutory limits, must be registered with the local counterpart of the SAFE. Any capital contributions by us to other PRC subsidiaries must be filed with MOFCOM or its local counterpart.

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According to the Circular of the State Administration of Foreign Exchange Concerning Reform of the Administrative Approaches to Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的 通知) (Hui Fa No. 19 [2015]) promulgated on March 30, 2015 by the SAFE and implemented since June 1, 2015, voluntary settlement is implemented on foreign exchange capital of foreign-invested enterprises (“FIEs”); foreign exchange capital in the FIE’s capital account, recognized by the foreign exchange authority as the right and interest of cash contribution (or registered by the bank for accounting entry of cash contribution), can be settled in banks according to its actual business requirements. The provisional percentage for the voluntary settlement of foreign exchange capital of FIEs is 100%. The SAFE may adjust the aforesaid percentage in due time according to the international receipts and payments situation. In addition, FIEs’ capital and Renminbi funds from their settlement shall not be used for the following purposes: (1) directly or indirectly used for payment beyond the business scope or prohibited under the laws and regulations of the State; (2) directly or indirectly used for securities investments, unless otherwise prescribed under the laws and regulations; (3) directly or indirectly used for the extension of Renminbi entrusted loans (unless permitted by the business scope), repayments of inter-enterprise borrowings (including third-party advances), and repayments of Renminbi bank loans already refinanced to any third party; (4) used for the payment of expenses related to the purchase of real estate not for self-use, except for foreign-invested real estate enterprises. We cannot assure you that we will be able to obtain all or any of the approvals required for making loans or additional capital contributions to our PRC subsidiaries using the proceeds from the Global Offering in a timely manner, or at all. Accordingly, we may not be able to make use of all or any of the proceeds from the Global Offering to extend loans or make additional capital contributions to our PRC subsidiaries.

The PRC government’s control of foreign currency conversion may limit our foreign exchange transactions.

Currently, Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange businesses. Foreign exchange transactions under the capital account conducted by us, however, must be approved or registered in advance by the SAFE or relevant banks.

Under existing foreign exchange regulations, following the completion of the Global Offering, our PRC subsidiaries will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue to be effect in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments

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by our PRC subsidiaries or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditures plans, and even our business, operating results and financial condition, may be materially and adversely affected.

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.

A substantial part of our business is conducted in China and is governed by PRC laws and regulations. Substantially all of our subsidiaries are located in China and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to develop a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by who an application or case is presented to such agency, we may receive less favorable interpretation of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

We may be deemed a PRC resident enterprise under the PRC EIT Law and be subject to PRC taxation on our worldwide income.

Under the PRC EIT Law, which came into effect on January 1, 2008 and amended on February 24, 2017, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and their global income will generally be subject to the uniform 25% EIT rate. Under the Implementation Rules for the PRC EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

Some of our management is currently based in China and may remain in China. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of “de facto management bodies” for enterprises incorporated overseas with controlling shareholders being onshore enterprises or enterprise groups in China. However, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents, as in our case. Therefore, we may be treated as a PRC resident enterprise for PRC EIT Law purposes. The tax consequences of such treatment are currently unclear as they will depend on how PRC finance and tax authorities apply or enforce the PRC EIT Law and the Implementation Rules.

RISK FACTORS

Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax law.

Under the PRC EIT Law and its implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable by a PRC “resident enterprise” to investors that are “non-resident enterprises” (those enterprises established under foreign law with its respective effective place of management outside of the PRC, but have an establishment or place of business within the PRC, or which do not have an establishment or place of business in the PRC but have income originating from the PRC) to the extent such dividends have their source within the PRC. Similarly, any gain realized on the transfer of shares by such enterprises is also subject to 10% PRC enterprise income tax if such gain is regarded as income derived from sources within the PRC. If we are regarded as a PRC “resident enterprise,” it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realize from the transfer of our Shares, will be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC EIT Law and the implementation rules. One example of a limitation on the 10% withholding tax is that, pursuant to a tax treaty between the PRC and Hong Kong, which became effective on December 8, 2006, a company incorporated in Hong Kong is subject to withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% or greater interest in the PRC company, or 10% if it holds an interest of less than 25% in the PRC company. If we are required under the PRC EIT Law to withhold PRC enterprise income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there was no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop or, if it does develop, will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering. In addition, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for our Shares. All of our existing shareholders have also agreed that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators, they will not dispose of any of the Shares during the six months following the Listing Date. As such, the number of our Shares available for sale will be significantly limited during the six months following the Listing Date, which may negatively impact the activity level of trading in our Shares and hinder the development of an active and liquid public trading market for our Shares during such period.

RISK FACTORS

Furthermore, the price and trading volume of our Shares may be volatile and may not always accurately reflect the underlying value of our business. Factors such as the following may affect the volume and price at which our Shares will trade:

- actual or anticipated fluctuations in our results of operations;
- announcements of new investments, strategic alliances and acquisitions by us or our competitors;
- changes in management or other key personnel of us or of our competitors;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- changes in laws, regulations and policies affecting our industry in jurisdictions where we operate;
- general market conditions or other developments affecting us or our industry; and
- release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of additional Shares by us, the Controlling Shareholders or other shareholders.

Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade and investors may realize less than the original sum invested. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Hong Kong Stock Exchange have experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance.

Substantial future sales or perceived sales of our Shares in the public market could cause the price of our Shares to decline.

Sales of our Shares in the public market after the Global Offering, or the perception that these sales could occur, could cause the market price of our Shares to decline. Upon completion of the Global Offering and the Capitalization Issue, we will have 1,833,300,000 Shares outstanding or 1,883,295,000 Shares outstanding if the Underwriters exercise the Over-allotment Option in full. Holders of our Shares, including holders of share options, will be able to sell their Shares upon the expiration of certain lock-up periods. Please see the section headed "Underwriting" in this prospectus. We cannot predict what effect, if any, market sales of securities held by our significant Shareholders or any other Shareholders or the availability of these securities for future sale will have on the market price of our Shares.

RISK FACTORS

There will be a time gap of several business days between pricing and trading of our Shares offered in the Global Offering.

Holders of our Shares are subject to the risk that the trading prices of our Shares could fall during the period before trading of our Shares begins. The range of the Offer Price of our Shares will be determined on the date of the final prospectus. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Because the Offer Price is higher than our net tangible book value per Share, you will incur immediate dilution and you may experience further dilution if we issue additional Shares or equity-linked securities in the future.

The Offer Price is higher than the net tangible book value per share issued to existing holders of our Shares. Therefore, purchasers of Offer Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value while the existing holders of our Shares, including our Controlling Shareholders, will receive an increase in net tangible book value per share of their Shares. In addition, if we issue additional Shares or equity-linked securities in the future, purchasers of our Shares may experience further dilution in the net tangible assets book value per Share the additional Shares are issued at a price lower than the net tangible assets book value per Share at the time of their issuance.

You may have difficulties in protecting your interests because we are a Cayman Islands company and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions.

We are a Cayman Islands company and our corporate affairs are governed by the Cayman Companies Law and common law of the Cayman Islands. The laws of Cayman Islands relating to the protection of the interest of minority shareholders differ from those under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Therefore, remedies available to the minority shareholders of our Company may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus for further information.

It may be difficult to effect service of process upon us or our executive Directors who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

A majority of our executive Directors reside within China, and a significant portion of their assets and our assets are located within China. Therefore, it may be difficult for investors to effect service of process upon us or those persons inside China or to enforce against us or them in China any judgments obtained from non-PRC courts.

RISK FACTORS

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

We cannot guarantee that we will pay dividends.

Any declaration of dividends will be proposed by our Directors and the amount of any dividends will depend on various factors, including, without limitation, market conditions, our strategic plans and prospects, our business opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, payments by subsidiaries of cash dividends to us and legal, tax and regulatory restrictions, and other factors that the Directors deem significant from time to time. For further details of our dividend policy, please see “Financial Information — Dividends and Dividend Policy.” We cannot guarantee if and when we will pay dividends in the future.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to global economy and the precision component industry contained in this prospectus.

Facts, forecasts and other statistics in this prospectus relating to the global economy and the precision component industry have been derived from the Roland Berger Report, prepared by an independent industry consultant engaged by us. However, we cannot guarantee the quality or reliability of such materials. They have not been prepared or independently verified by us, the Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, our Directors, officers, employees, advisors, agents or representatives of any of them, or any other parties (collectively, the “**Relevant Parties**”) and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. We have, however, taken reasonable care in the reproduction and/or extraction of the official government publications for the purpose of disclosure in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this prospectus may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy and the PRC real estate industry contained in this prospectus.

Investors should read this prospectus carefully. We strongly caution you not to place reliance on any information contained in press articles or reports or other media regarding us and the Global Offering including, in particular, any financial projections, valuations or other forward-looking statement.

Prior to the publication of this prospectus, there may be press articles or reports or other media which contains information referring to us and the Global Offering that is not set out in

RISK FACTORS

this prospectus. We wish to emphasize to potential investors that neither we nor any of the Relevant Parties has authorized the disclosure of such information in any press or media, and neither the press articles or reports, any future press articles or reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorized by us or any of the Relevant Parties. Neither we nor any Relevant Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, you should rely solely on the information in this prospectus in making your investment decisions regarding our Shares. However, please note that undue reliance should not be placed on any forward-looking statements contained in this prospectus which may not occur in the way we expect or may not materialize at all as set out in the section headed “Forward-looking Statements” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which is part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Listing is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. The International Offering is managed by the Joint Global Coordinators. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to the agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us. If, for any reason, the Offer Price is not agreed upon amongst the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us, the Global Offering will not proceed and will lapse. Further details about the Underwriters and the underwriting arrangements are contained in the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exception therefrom.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including Shares to be issued pursuant to the Capitalization Issue), Shares which may fall to be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme) on the Main Board.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the Application Lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Hong Kong Stock Exchange.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our Cayman Principal Registrar in the Cayman Islands and our Company's branch register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Global Offering, the Capitalization Issue and any Shares to be issued upon exercise of the Over-allotment Option or the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme will be registered on our Company's branch register of members in Hong Kong. Only Shares registered on our Company's register of members maintained in Hong Kong may be traded on the Hong Kong Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

Dealings in our Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty in Hong Kong is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater), the value of, the Shares transferred. In other words, a total of 0.2% of the consideration is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on our Company's branch register of members in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Articles of Association.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

on the Main Board or any other date as HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stock brokers or other professional advisors for details of the settlement arrangements that may affect their rights and interests. All necessary arrangements have been made for our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of holding and dealing in our Shares. None of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any member of our Group, any of their respective directors, supervisors, agents or advisors or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of our Shares resulting from the subscription, purchase, holding or disposal of, dealing in, or exercising any rights in relation to, our Shares.

OVER-ALLOTMENT AND STABILIZATION

In connection with the Global Offering, the Joint Global Coordinators or any person acting for it may over-allot or effect transactions with a view to supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Joint Global Coordinators or any person acting for it to do this. Such stabilization action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. An announcement will be made to the public within seven days after the end of the stabilizing period as required under the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong).

In connection with the Global Offering, our Company intends to grant to the Joint Global Coordinators (for itself and on behalf of the Underwriters) the Over-allotment Option, which will be exercisable in full or in part by the Joint Global Coordinators (for itself and on behalf of the Underwriters) no later than 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue at the Offer Price up to 49,995,000 Shares, representing 15.0% of the initial number of our Offer Shares.

Further details with respect to stabilization and the Over-allotment Option are set out in the section headed “Structure of the Global Offering — Stabilization” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 28, 2019, it is expected dealings in our Shares on the Main Board will commence at 9:00 a.m. on Friday, June 28, 2019. Shares will be traded in board lots of 1,000.

The stock code for our Shares is 1286.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, the translations of Hong Kong dollars into U.S. dollars have been made at the rates of HK\$7.8413 to US\$1.00, the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Bank as at June 7, 2019, and the translation of Renminbi into Hong Kong dollars has been made at the rate of RMB1.00 to HK\$1.1343, the middle exchange rate of Renminbi on June 13, 2019 published by the State Administration of Foreign Exchange. No representation is made that (i) Renminbi amounts could have been, or could be, converted into U.S. dollars; (ii) that Hong Kong dollars could have been, or could be, converted into U.S. dollars; or (iii) the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at such rates or at any other rate on such date or on any other date.

ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| <u>Name</u> | <u>Residential address</u> | <u>Nationality</u> |
|---|--|--------------------|
| <i>Executive Directors</i> | | |
| Mr. LU Ruibo (陸瑞博) <i>(Chairman and Chief Executive Officer)</i> | Flat No. 04, 35th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Hong Kong | Chinese |
| Ms. WANG Hui, Ina (王輝) | Flat No. 04, 35th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Hong Kong | American |
| Mr. YU Yuepeng (余躍鵬) | Room 102 No. 195 District 2 Vanke City Gardens Binhu District Wuxi City, Jiangsu Province PRC | Chinese |
| Ms. ZHU Liwei (朱力微) | Room 2703, 7 Runzeyaju Wuxi City, Jiangsu Province PRC | Chinese |
| Mr. WANG Dong (王東) | Room 501 No. 141 Yue Xiu Garden Binhu District Wuxi City, Jiangsu Province PRC | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| <u>Name</u> | <u>Residential address</u> | <u>Nationality</u> |
|--|--|--------------------|
| <i>Independent non-executive Directors</i> | | |
| Mr. YU Kwok Kuen Harry (余國權) | Flat B, 8/F, Tower 3, The Redhill Peninsula, 18 Pak Pat Shan Road, Tai Tam Hong Kong | Chinese |
| Dr. YEN Gordon (嚴震銘) | Flat B, 12/F, La Clare Mansion 92 Pok Fu Lam Road Hong Kong | Chinese |
| Mr. LEE Siu Ming (李小明) | Flat A, 2/F, Block 2 Cavendish Heights 33 Perkins Road Jardine's Lookout Hong Kong | Chinese |

Further information in relation to our Directors are disclosed in the section headed "Directors and Senior Management" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Joint Global Coordinators

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

AMTD Global Markets Limited
23/F - 25/F, Nexxus Building
41 Connaught Road Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

Morgan Stanley Asia Limited
(in relation to the Hong Kong Public Offering only)
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Morgan Stanley & Co. International plc
(in relation to the International Offering only)
25 Cabot Square, Canary Wharf
London E14 4QA
United Kingdom

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

GF Securities (Hong Kong) Brokerage Limited

29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

AMTD Global Markets Limited

23/F - 25/F, Nexxus Building
41 Connaught Road Central
Hong Kong

DBS Asia Capital Limited

73rd Floor, The Center
99 Queen's Road Central
Hong Kong

Legal advisors to our Company

As to Hong Kong law:

Squire Patton Boggs

29th Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

JunHe LLP

26/F, HKRI Centre One
HKRI Taikoo Hui
288 Shimen Road (No.1)
Shanghai
PRC

As to United States law:

Squire Patton Boggs (US) LLP

275 Battery Street
Suite 2600, San Francisco
California 94111
United States

As to German law:

Squire Patton Boggs (US) LLP

Eurotheum
Neue Mainzer Strasse 66-68
60311 Frankfurt am Main
Germany

As to Luxembourg law:

Squire Patton Boggs (US) LLP

Unter den Linden 14
10117 Berlin
Germany

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to Czech law:

Squire Patton Boggs s.r.o., advokátní kancelář
Václavské náměstí 813/57
110 00 Prague 1
Czech Republic

As to Turkish law:

PEKİN & PEKİN
10 Lamartine Caddesi
Taksim 34437
Istanbul
Turkey

As to Mexican law:

Sánchez Devanny Eseverri, S.C.
Paseo de las Palmas 525 Piso 6
Col. Lomas de Chapultepec
Mexico City 11000
México

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Legal advisors to the Joint
Sponsors and the Underwriters**

As to Hong Kong and United States laws:

Simpson Thacher & Bartlett
ICBC Tower, 35/F
3 Garden Road
Central
Hong Kong

As to PRC law:

Tian Yuan Law Firm
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No. 28 Fengsheng Lane
Xicheng District
Beijing 100032
China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Auditors and reporting
accountants**

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

Industry consultant

Roland Berger Hong Kong Limited
16/F Nexxus Building
41 Connaught Road
Hong Kong

Compliance advisor

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

Receiving bank

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

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| Registered office in the Cayman Islands | Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands |
| 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 |
| Company's website | <u>www.improrecision.com</u> <i>(information contained in this website does not form part of this prospectus)</i> |
| Company secretary | Mr. IP Wui Wing Dennis (葉滙榮) (CPA) |
| Authorised representatives | Mr. LU Ruibo (陸瑞博) Flat No. 04, 35th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Hong Kong Mr. IP Wui Wing Dennis (葉滙榮) Flat C, 5/F, Block 9 Island Harbourview 11 Hoi Fai Road Tai Kok Tsui, Kowloon Hong Kong |
| Audit committee of our Board | Mr. YU Kwok Kuen Harry (余國權) (Chairman) Dr. YEN Gordon (嚴震銘) Mr. LEE Siu Ming (李小明) |
| Remuneration committee of our Board | Mr. LEE Siu Ming (李小明) (Chairman) Mr. YU Kwok Kuen Harry (余國權) Mr. LU Ruibo (陸瑞博) |
| Nomination committee of our Board | Mr. LU Ruibo (陸瑞博) (Chairman) Dr. YEN Gordon (嚴震銘) Mr. LEE Siu Ming (李小明) |

CORPORATE INFORMATION

| | |
|----------------------------------|--|
| Principal Registrar | 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 |
| Principal banks | <i>In Hong Kong:</i> Bank of China (Hong Kong) Limited Head Office Bank of China Tower 1 Garden Road Central Hong Kong DBS Bank (Hong Kong) Limited 18th Floor, The Center 99 Queen's Road Central Central Hong Kong The Hongkong and Shanghai Banking Corporation Limited Level 10 HSBC Main Building 1 Queen's Road Central Hong Kong |

CORPORATE INFORMATION

In the PRC:

Bank of Communications Limited

Wuxi Branch
Binhu District
No. 8 Two Finance Street

Bank of Jiangsu Co., Ltd.

Wuxi Liangxi Branch
321 Jie Fang Road West
Wuxi City
Jiangsu Province
PRC

In the United States:

Cathay Bank

City of Industry Branch
1250 S. Fullerton Road
City of Industry
CA91748
California
United States

In Germany:

Commerzbank AG

Bad Homburg Branch
Louisenstrasse 66
61348 Bad Homburg
Germany

In Turkey:

T. Garanti Bankasi A.S.

Gebze Commercial Branch
Gebze Organize Sanayi Bölgesi
1600 Sokak 1601-11
41400 Gebze, Kocaeli
Turkey

In Mexico:

Banco Bilbao Vizcaya Argentaria S.A.

Av Sierra Leona No 360 Piso 10
Col. Villantigua. C.P. 78214
San Luis Potosi, S.L.P. México

WAIVER AND CONSENT UNDER THE LISTING RULES AND CERTIFICATE OF EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

WAIVER AND EXEMPTION IN RELATION TO THE PRE-IPO SHARE OPTION SCHEME

Pursuant to Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this prospectus is required to include, among other things, details regarding the number, description, and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given, full details of all outstanding options and their potential dilution effect on the shareholdings upon Listing, as well as the impact on the earnings per Share arising from the exercise of the Pre-IPO Share Options.

We have granted the Pre-IPO Share Options to 161 Grantees to subscribe for 30,230,000 Shares for a consideration for each Share representing 20% discount to the Offer Price on the terms set forth in the section headed “Our History and Development and Corporate Structure — Pre-IPO Share Option Scheme” in this prospectus and the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus. Assuming an Offer Price of HK\$3.05 per Offer Share (being the mid-point of the Offer Price range), the exercise price of each Pre-IPO Share Option will be HK\$2.44 per Share and the Company will receive a total consideration of HK\$73,761,200 if all Pre-IPO Share Options are exercised. The Grantees include Connected Grantees, and Grantees who are members of our senior management team and our employees.

We have applied (i) to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules and (ii) to the SFC for an exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the Pre-IPO Share Options and certain Grantees in this prospectus on the ground that the waiver and the exemption will not prejudice the interest of the investing public and strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would be unduly burdensome for the Company for the following reasons:

- (i) the Pre-IPO Share Options are granted to 161 Grantees to subscribe for 30,230,000 Shares, representing 1.65% of our Shares in issue immediately after completion of Global Offering and the Capitalization Issue (without taking into consideration our Shares that may be allotted and issued or sold upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be

WAIVER AND CONSENT UNDER THE LISTING RULES AND CERTIFICATE OF EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

granted under the Post-IPO Share Option Scheme). The Grantees include four Connected Grantees and nine Grantees who are members of our senior management team and the other 148 Grantees are our employees who are not Directors, senior management or connected persons of the Company;

- (ii) our Directors consider that it would be unduly burdensome to disclose in this prospectus full details of all the Pre-IPO Share Options granted by us to each of the Grantees, which would significantly increase the cost and time required for the preparation of this prospectus;
- (iii) material information of the Pre-IPO Share Options will be disclosed in this prospectus to provide the prospective investors with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the Pre-IPO Share Options in making their investment decision, and such information includes:
 - (a) a summary of the Pre-IPO Share Option Scheme;
 - (b) the aggregate number of our Shares subject to the Pre-IPO Share Options and the percentage of our Shares of which such number represents;
 - (c) the dilution effect and the impact on earnings per Share for the year ending December 31, 2019 upon full exercise of the Pre-IPO Share Options together with the amount charged to the income statement of our Group for the year ending December 31, 2019;
 - (d) full details of the Pre-IPO Share Options granted to (1) the Connected Grantees, (2) the Grantees who are members of our senior management team named in this prospectus, and (3) the Grantees, other than those referred to in (1) and (2), who have been granted Pre-IPO Share Options to subscribe for 250,000 Shares or more, on an individual basis, including (i) name and position; (ii) residential address; (iii) number of Shares underlying such Pre-IPO Share Options; and (iv) percentage of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme);
 - (e) full details of all Pre-IPO Share Options granted to the Grantees (excluding those referred to in (d) above) on an aggregate basis, including (i) the aggregate number of such Grantees; (ii) the aggregate number of Shares underlying such Pre-IPO Share Options; (iii) the exercise period of such Pre-IPO Share Options; (iv) the consideration then paid for such Pre-IPO Share Options; and (v) the exercise price of such Pre-IPO Share Options; and

WAIVER AND CONSENT UNDER THE LISTING RULES AND CERTIFICATE OF EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (f) the particulars of the waiver and exemptions granted by the Hong Kong Stock Exchange and the SFC;
- (iv) our Directors consider that non-compliance with the above disclosure requirements would not prevent our Company from providing potential investors with sufficient information for an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Group; and
- (v) a full list of all the Grantees containing all details as required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection under “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Public Inspection in Hong Kong” in Appendix V to this prospectus.

The Hong Kong Stock Exchange has granted us a waiver from strict compliance with the relevant requirements under the Listing Rules subject to the conditions under (iii) above.

The SFC has granted a certificate of exemption under Section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, subject to the conditions that:

- (i) full details of Pre-IPO Share Options granted to (1) the Connected Grantees, (2) the Grantees who are members of our senior management team named in this prospectus, and (3) the Grantees, other than those referred to in (1) and (2), who have been granted Pre-IPO Share Options to subscribe for 250,000 Shares or more, on an individual basis, including (aa) name and position; (bb) residential address; (cc) number of Shares underlying such Pre-IPO Share Options; and (dd) percentage of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), and such details to include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (ii) full details of all Pre-IPO Share Options granted to the Grantees (excluding those referred to in (i) above) on an aggregate basis, including (aa) the aggregate number of such Grantees; (bb) the aggregate number of Shares underlying such Pre-IPO Share Options; (cc) the exercise period of such Pre-IPO Share Options; (dd) the consideration then paid for such Pre-IPO Share Options; and (ee) the exercise price of such Pre-IPO Share Options;

WAIVER AND CONSENT UNDER THE LISTING RULES AND CERTIFICATE OF EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (iii) a full list of all the Grantees containing all details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection as described in the paragraphs under “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Public Inspection in Hong Kong” in Appendix V to this prospectus; and
- (iv) the particulars of the exemption are set forth in this prospectus and the Company’s prospectus will be issued on or before June 18, 2019.

Further information on the Pre-IPO Share Option Scheme is set forth in the section headed “Our History and Development and Corporate Structure — Pre-IPO Share Option Scheme” in this prospectus and the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

CONSENT IN RESPECT OF ALLOCATION OF SHARES TO A CONNECTED CLIENT OF A JOINT GLOBAL COORDINATOR

Paragraph 5(1) of Appendix 6 to the Listing Rules provides that no allocations will be permitted to “connected clients” of the lead broker or of any distributors without the prior written consent of the Hong Kong Stock Exchange.

China Structural Reform Fund has agreed to be the Cornerstone Investor and has appointed GF Securities Asset Management (Guangdong) Co., Ltd (the “**QDII Manager**”), an asset manager that is a qualified domestic institutional investor as approved by the relevant PRC authority, in the name of CEB-GFAM-China Structural Reform Fund Asset Management Account No.6, to subscribe for and hold the International Offer Shares allocated to it on a discretionary basis on behalf of the China Structural Reform Fund. As the QDII Manager and GF Securities (Hong Kong) Brokerage Limited (the “**Relevant Broker**”), one of the Joint Global Coordinators, are within the same group of companies, the QDII Manager is a connected client of the Relevant Broker under paragraph 13(7) of Appendix 6 to the Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a consent under paragraph 5(1) of Appendix 6 to the Listing Rules to permit the Company to allocate Shares to the QDII Manager. Please refer to the section headed “Cornerstone Investment” in this prospectus for further information on the consent and the related conditions.

APPLICABLE LAWS AND REGULATIONS

THE PRC

This section summarizes the main PRC laws, rules and regulations applicable to our business and operations.

Regulations Relating to Establishment and Operation of PRC Subsidiaries

Company Law

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law (中華人民共和國公司法), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and was effective as of July 1, 1994, which was subsequently amended on December 25, 1999, August 28, 2004 and revised on October 27, 2005, amended on December 28, 2013 and amended on October 26, 2018. The PRC Company Law generally governs two types of companies —limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested limited liability companies subject to provisions under laws specifically governing foreign investment.

Under the PRC Company Law, a company's registered capital is the amount of the capital to be subscribed by its shareholders in the form and timing as set out in its articles of association, whereas the paid-in capital is no longer required to be registered with the government authority.

Wholly Foreign-Owned Enterprise Law

The establishment procedures, approval procedures, registered capital requirement and other operation matters with respect to wholly foreign-owned enterprises are governed by the Wholly Foreign-Owned Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated on April 12, 1986 and amended on October 31, 2000 and September 3, 2016, and the Implementation Rules under the Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990, amended on April 12, 2001 and amended on February 19, 2014.

On October 8, 2016, MOFCOM implemented Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Filings Measures**”), which was last amended on June 29, 2018 and came into effective on June 30, 2018. Pursuant to the Filings Measures, only filing procedure is needed for the establishment and change of foreign-invested enterprises with no special management measures on the admission of foreign investors.

Foreign Investment Law

The Foreign Investment Law of the PRC (中華人民共和國外商投資法) (the “**Foreign Investment Law**”) was adopted by the second session of the 13th NPC on March 15, 2019, which shall come into force as of January 1, 2020, if enacted, will replace the Law on

APPLICABLE LAWS AND REGULATIONS

Sino-foreign Equity Joint Ventures, the Law on Sino-foreign Contractual Joint Ventures and the Wholly Foreign-Owned Enterprise Law to become the legal foundation for foreign investment in the PRC. Under the Foreign Investment Law, the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, according to which the treatment given to foreign investors and their investments during the investment access stage shall be not lower than that given to their domestic counterparts, and the State shall give national treatment to foreign investment beyond the negative list where special administrative measures for the access of foreign investment in special fields is specified. Besides, the State shall protect foreign investors' investment, earnings, and other legitimate rights and interests within the territory of the PRC in accordance with the law. The State will take measures to prompt foreign investment such as ensuring fair competition for foreign-invested enterprises to participate in government procurement activities, and protection of intellectual property rights of foreign investors and foreign-invested enterprises. In respect of administration of foreign investment, foreign investment shall go through relevant verification and record-filing formalities if required by relevant state laws and regulations. While the organization form, institutional framework and standard of conduct of a foreign-funded enterprises shall be subject to the provisions of the Company Law or the Partnership Enterprise Law of the PRC, if applicable.

Guidance of Foreign Investment Industries

According to the Catalog of Industries for Guiding Foreign Investment (2017 Revision) (外商投資產業指導目錄(2017年修訂)) promulgated by the NDRC and MOFCOM on June 28, 2017 and came into effect on July 28, 2017, and the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (外商投資准入特別管理措施 (負面清單)) (2018年版) issued on June 28, 2018 and effective from July 28, 2018 "aluminum alloy precision forging molds," "manufacture of high-precision, high-strength (at the level of 12.9 or above), special-shaped, assembly fasteners," "design and manufacture of metal product molds (extrusion molds for pipes, rods and section bars made of copper, aluminum, titanium and zirconium)," "clamps and gauges for automobiles and motorcycles," "design and manufacture of precise molds," "manufacture of key automobile parts and components," "design, manufacture and maintenance of aircraft engines and engine parts and components" are classified as "encouraged industries for foreign investment." Among our four business segments, the production of precision-machined parts falls in the encouraged category for foreign investment, and the production of investment castings, sand casting components, and special processes falls in the permitted category for foreign investment.

Approval on Foreign Invested Projects

Pursuant to the Decision on the Reform of Investment System (關於投資體制改革的決定) promulgated by the PRC State Council on July 16, 2004, the central government of the PRC has the power to determine whether the approval and/or filing system applies to a specific investment. Accordingly, the PRC State Council released the Investment Project Catalogue Approved by the Government (2004 Edition) (政府核准的投資項目目錄(2004年本)) ("Government Approval Catalog 2004") on July 16, 2004 which was subsequently amended on December 2, 2013, October 31, 2014 and December 12, 2016 (政府核准的投資項目目錄(2016

APPLICABLE LAWS AND REGULATIONS

年本) (“Government Approval Catalog 2016”). Under the Government Approval Catalog 2016, foreign invested projects which fall in the restricted industries under the Catalog of Industries for Guiding Foreign Investment with total investment (including capital increase) of US\$300 million or above shall be subject to the approval of the competent investment department under the State Council. Among them, projects with total investment (including capital increase) of US\$2 billion or above shall be reported to the State Council for registration.

Regulations Relating to Environmental Protection

General Provisions

Certain PRC environmental laws and regulations are applicable to our production, mainly including the PRC Environmental Protection Law (中華人民共和國環境保護法), Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法), Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) and the PRC Environmental Impact Assessment Law (中華人民共和國環境影響評價法).

According to the PRC Environmental Protection Law, all business operations that may cause environmental pollution and other public hazards are required to establish reliable mechanism for environmental protection and take effective measures to prevent and control pollution to the environment in the form of gaseous pollution, waste water, solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Waste water, solid waste, noise, dust, air pollution, sewage and other industrial waste are generated at different stages of our production process. We have taken various measures to ensure the compliance with applicable PRC environmental protection laws and regulations. See “Business — Occupational Safety and Environmental Protection — Environmental Protection.”

Environmental Impact Assessment

According to the Regulations on Administration of Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the PRC State Council on 29 November 1998 and amended on July 16, 2017 and came into effect on October 1, 2017, Administrative Measures for Construction Project Completion Acceptance on Environmental Protection (建設項目竣工環境保護驗收管理辦法) promulgated by the Ministry of Environmental Protection on 27 December 2001 and PRC Environmental Impact Assessment Law partly amended by the Decision on Abolishing and Amending some Regulations and Normative Documents of the Ministry of Environmental Protection (關於廢止、修改部分環保部門規章和規範性文件的決定) on December 22, 2010, the Interim Measures for Construction Project Completion Acceptance on Environmental Protection (建設項目竣工環境保護驗收暫行辦法) issued and effective on November 20, 2017, and the PRC Environmental Impact Assessment

APPLICABLE LAWS AND REGULATIONS

Law (中華人民共和國環境影響評價法) promulgated by Standing Committee of the National People's Congress on 28 October 2002 and amended on July 2, 2016 and further amended on December 29, 2018, enterprises shall entrust competent institutions to prepare an environmental impact assessment report to the Environmental Protection departments. Enterprises shall not commence any engineering construction until the approvals from the Environmental Protection departments have been obtained. Pollution prevention and control facilities in construction projects shall be designed, built and put into operation simultaneously with the principal works of construction project. After the completion of a construction project, the construction unit shall apply with the administrative department of environmental protection which approved the construction project for inspection and acceptance of the completed environmental protection facilities that affiliated to the construction project.

According to the List of Classified Management on Construction Projects Environmental Impact Assessment (the "List") (建設項目環境影響評價分類管理名錄), promulgated by the Ministry of Environmental Protection on 2 September 2008 and was effective on October 1, 2008 which was subsequently amend on April 9, 2015 and became effective on June 1, 2015 amended on June 29, 2017 and came into effect on September 1, 2017, and was amended on April 28, 2018, the State has implemented the classification management system based on the project's impact on the environment. Construction enterprises shall, in accordance with the classification of the List, respectively submit the environmental impact assessment report, the environmental impact report form or fill the environmental impact registration form. According to the List, except that the PRC subsidiaries engaging in plating should prepare environmental impact assessment report, the other PRC subsidiaries should prepare environmental impact report form and submit such reports or report forms to the environmental authorities.

Regulations Relating to Product Quality

Our business operation and our products are subject to the PRC Standardization Law (中華人民共和國標準化法) which was promulgated on December 29, 1988 and became effective on April 1, 1989, and amended on November 4, 2017 and became effective on January 1, 2018, and the PRC Product Quality Law (中華人民共和國產品質量法) which was promulgated on February 22, 1993 and became effective on September 1, 1993, and amended on July 8, 2000 and became effective on September 1, 2000, and further amended on August 27, 2009 and December 29, 2018. According to the PRC Standardization Law enacted on December 29, 1988, our casting components, precision-machined parts and mold products are required to meet national standards, industry standards and local standards of safety requirements.

The Quality Law promulgated on February 22, 1993 and amended on July 8, 2000 and on August 27, 2009 is applicable to the production and sale of products within China. According to the Quality Law, our PRC operating subsidiaries are required to establish complete internal quality management system and implement rules on quality specification, product liability and corresponding evaluation methods. Where a defective product causes personal injury and damage to properties, our company shall indemnify the losses and damage caused by its products.

APPLICABLE LAWS AND REGULATIONS

As a result of our continuous quality control efforts, our quality management system has been accredited with the ISO 9001 certification, the IATF 16949 certification, the AS 9100 certification, the ISO 13485 certification, the ISO 14001 certification, the Nadcap certification, PED certification and TPG certification.

Regulations Relating to Labor and Safety

Labour Law and Labour Contract Law

According to the Labour Law of the PRC (中華人民共和國勞動法) promulgated on 5 July 1994 and effective on 1 January 1995 amended on August 27, 2009 and December 29, 2018, enterprises and institutions shall establish and perfect their system of work place safety and sanitation and strictly abide by state rules and standards on work place safety. Labour safety and sanitation facilities shall comply with statutory standards. Enterprises and Institutions shall provide employees with a safe work place and sanitation conditions which are in compliance with relevant laws and regulations of labour protection.

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) promulgated on 29 June 2007 and came into effect on 1 January 2008 and amended on December 28, 2012. And the Implementing Regulations of the Labor Contract Law of the PRC (中華人民共和國勞動合同法實施條例) promulgated on 18 September 2008 primarily regulate employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts. The newly amended Labour Contract Law which became effective on July 1, 2013 imposes more stringent requirements on labour dispatch and more stringent penalties on unlawful labor dispatch practices. According to the amendments, the number of contract workers that hired by an employer may not exceed a certain percentage of the total number of employees and the contract workers can only engage in temporary, auxiliary or substitutive work. The amended Labor Contract Law also requires contract workers doing the same work as full-time employees receive the same compensation. In the event that an employer has caused a dispatched worker to suffer damages, the labor dispatch entity and the employer shall jointly and severally bear compensation liability to such worker.

Further, according to the Interim Provisions on Labor Dispatch (勞務派遣暫行規定) promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and contract workers). Where the number of dispatched workers engaged by an employer, which engagement lapped prior to the implementation of these provisions, exceeds 10% of its total number of employees, the employer shall make a plan for the adjustment of such workers, and reduce the said percentage to the required proportion within two years from the date of implementation hereof of the Interim Provisions on Labor Dispatch.

APPLICABLE LAWS AND REGULATIONS

Social Insurance and Housing Accumulation Funds

Pursuant to the Social Insurance Law of PRC (中華人民共和國社會保險法) promulgated on 28 October 2010 and implemented on 1 July 2011 and amended on 29 December 2018, the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 and amended on March 24, 2019, the Regulation Concerning the Administration of Housing Fund (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by PRC State Council, the Regulation on Occupational Injury Insurance (工傷保險條例) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by PRC State Council, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees.

According to the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例), enterprises should conduct social insurances registration with relevant local authorities. And should contribute to social insurance payments on behalf of employees in accordance with relevant rules and regulations.

According to the Regulation Concerning the Administration of Housing Fund (住房公積金管理條例), enterprises should register with the Housing Fund Management Centre and open a housing fund account. The housing fund contributed by enterprises and employees shall not be less than 5% of the average monthly wages of the previous year.

Safety Production

The PRC Law on Safety Production requires manufacturers to maintain workplace safety conditions in their production facilities pursuant to relevant laws, administrative regulations, national standards and industry standards. Failure to meet such requirements may subject the manufacturer to suspension or prohibition of production and business operation. In addition, manufacturers are required to train their employees for production safety and design, manufacture, install, use, inspect and maintain their equipment to meet the applicable national or industrial standards.

The Regulation on Safety Management of Hazardous Chemicals applies to the safety management in connection with the production, storage, use, operation and transportation of hazardous chemicals. The regulation further requires the entity holding hazardous chemicals shall meet the safety conditions required by laws, administrative regulations, national standards, and industrial standards, establish and improve safety management rules and production safety accountability system, and provide their employees with safety education, legal education, and job-related technical training. The employees shall accept the education and training, and may begin working only after qualifying the relevant assessment. Where it requires employees to have certain qualification to assume a post, an enterprise shall only designate employees having such qualification to assume the post.

APPLICABLE LAWS AND REGULATIONS

We implement stringent safety policies in our production and have taken various measures to ensure the compliance with applicable workplace safety laws and regulations. See “Business — Occupational Safety and Environmental Protection — Occupational Safety.”

Regulations Relating to Export

Customs

According to the PRC Foreign Trade Law (中華人民共和國對外貿易法) promulgated by the Standing Committee of NPC on May 12, 1994, as amended on April 6, 2004 and amended on November 7, 2016, the PRC government adopt quotas to the goods which are confined or prohibited from import or export and the MOFCOM, or together with other departments of PRC State Council, is responsible for publishing the detailed categories. The products of our PRC operating subsidiaries are not classified as the aforesaid confined or prohibited products.

According to the PRC Customs Law (中華人民共和國海關法) promulgated by the Standing Committee of the NPC on January 22, 1987, as amended on July 8, 2000, June 29, 2013 and December 28, 2013, November 7, 2016 and last amended on November 4, 2017, and Measures of the Customs of the People's Republic of China for the Supervision and Administration of Processing Trade Goods (中華人民共和國海關加工貿易貨物監管辦法) issued by General Administration of the Customs on March 12, 2014 and amended on December 20, 2017, May 29, 2018 and November 23, 2018. All of the goods including imported and exported goods shall be at the supervision of customs authorities and shall be declared truthfully. The PRC General Administration of the Customs also levies the tariff and the tariff rate is changeable to various goods. And the trade processing enterprises shall declare and register the processing trade goods with the local Customs authorities and obtain processing trade manuals upon approval by the local Customs authorities. The enterprises shall handle the Customs import and export declaring formalities with such manuals and other required documents.

Export tariffs and rebates

Under the Announcement of the General Administration of Customs No. 63 of 2012 (海關總署公告2012年第63號) promulgated by the General Administration of the Customs on December 18, 2012, the provisional export tariff rate applicable to our products is zero.

According to the Measures on the Administration of Tax Refund (Exemption) of Exported Products (For Trial Implementation) (出口貨物退(免)稅管理辦法(試行)) promulgated on March 16, 2005 by the SAT of the PRC, and the Provisional Regulations on Value-Added Tax (中華人民共和國增值稅暫行條例) promulgated on December 13, 1993, and last amended on November 19, 2017, by the PRC State Council, exporters who export products by themselves or through an agent, unless otherwise provided in other regulations, may, after declaration to the customs for the export goods and relevant sales settlement, submit the relevant vouchers to the local tax authorities for approval of refund of or exemption from the value added tax and consumption tax levied on such export goods.

APPLICABLE LAWS AND REGULATIONS

Regulations Relating to Enterprise Income Tax

According to the PRC EIT Law (中華人民共和國企業所得稅法) and its implementing rules (中華人民共和國企業所得稅法實施條例), the corporate income tax rate for both domestic and foreign-invested enterprises are unified at 25%, and the high-tech enterprises requiring support from the State may enjoy a reduced enterprise income tax rate of 15%. For those enterprises established before March 16, 2007 and entitled to preferential income tax treatments by tax related laws and administrative regulations, the PRC EIT Law provides for a five-year transitional period, during which the applicable enterprise income tax rate shall be enhanced to the unified rate at 25% gradually.

Under the PRC EIT Law, enterprises are classified as either “resident enterprises” or “non-resident enterprises.” Enterprises established under foreign law with de facto management bodies” outside the PRC but have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income originating from China are considered as “non-resident enterprises,” which shall pay income tax at the rate of 10% in relation to the income originating from China unless a tax treaty benefit can be claimed. Enterprises established under the laws of foreign countries or regions whose “de facto management organization” located within the PRC territory are considered as “resident enterprises,” and thus generally be subject to the enterprise income tax at the rate of 25% on their global income. The implementing rules of the PRC EIT Law define “de facto management” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises.”

On 21 August 2006, the PRC and the government of Hong Kong signed Arrangement between Mainland and Hong Kong Special Administrative Region for Avoiding Dual Taxation on Income and Preventing Escape of Taxation (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “Arrangement”). According to the Arrangement, 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The Notice on Issues relating to the Application of the Dividend Provision in Tax Treaties (關於執行稅收協定股息條款有關問題的通知) (the “Notice”) promulgated on 20 February 2009 by the State Administration of Taxation of the PRC reaffirms the qualification for dividend recipient to enjoy tax preferential treatment of being levied at 5% as follows: (1) the recipient of the dividend shall be a corporation; (2) the recipient’s ownership in the Chinese company shall meet the prescribed 25% direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; and (3) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential treatment.

Regulations Relating to Value Added Tax

Pursuant to the Provisional Regulations of the People’s Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》), promulgated by the State Council on December 13, 1993 and revised on November 19, 2017 and effective on the same day, entities and individuals engaging in sale of goods or processing, repair and assembly services, sales of services, intangible assets, immovables and important of goods shall be taxable of VAT, and

APPLICABLE LAWS AND REGULATIONS

shall pay VAT at a tax rate of 17% for general selling or importing goods pursuant to the VAT Provisions. The MOF and the SAT published a Notice on Adjusting VAT Rates (財政部、稅務總局關於調整增值稅稅率的通知) on April 4, 2018 and which became effective on May 1, 2018 to announce that the value-added tax rate shall be lowered from 17% to 16% from 1 May 2018. On April 1, 2019, the Announcement on Policies to Deepen the VAT Reform (《關於深化增值稅改革有關政策的公告》) promulgated by MOF, SAT, and GAC comes into effect, which lower the value-added tax rate for industries such as manufacturing from 16% to 13%.

Regulations Relating to Overseas Investments

Under the Measures for the Administration of Overseas Investment (境外投資管理辦法) promulgated by MOFCOM on March 16, 2009 and was effective on May 1, 2009, which was subsequently amended on September 6, 2014 and became effective on October 6, 2014, establishment of enterprises outside China is required to obtain approvals from MOFCOM or its local counterparts.

According to the Measures for the Administration of Overseas Investment of Enterprises (企業境外投資管理辦法) issued by the NDRC on December 26, 2017 and effective from March 1, 2018, any overseas investment projects that involve any sensitive country or region or any sensitive industry, shall be approved by the NDRC. Overseas investment projects other than those specified above, the non-sensitive projects, are subject to filing requirement.

Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (境內機構境外直接投資外匯管理規定), promulgated by SAFE on July 13, 2009 and became effective on August 1, 2009, provides that SAFE or its local branches shall supervise and administer foreign exchange registration and filing system for overseas direct investments of domestic entities and the assets and relevant rights and interests generated from such investments. The domestic entities shall, within 60 days after the occurrence of the relevant circumstances, go through the formalities for registration, modification or filing procedures with respect to foreign exchange for overseas direct investment with the local branch of the SAFE where the domestic institution is located.

Regulations Relating to Foreign Exchange and Dividend Distribution

Dividend Distribution

The Implementation Rules under Foreign Enterprise Law (中華人民共和國外資企業法實施細則) provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10% of the after tax profit must be allocated to the reserve fund. If the cumulative total amount of allocated reserve fund reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

APPLICABLE LAWS AND REGULATIONS

Foreign Currency Exchange

Pursuant to the Foreign Currency Administrative Rules (中華人民共和國外匯管理條例) promulgated in 1996 and amended in 1997 and 2008, and other relevant PRC government authorities, Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investments, require prior approvals of SAFE or its local counterparts for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks up to a maximum amount set by SAFE or its local counterparts. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into Renminbi.

Foreign Exchange Registration

On July 4, 2014, the SAFE promulgated the Circular on Relevant Issues concerning Foreign Exchange Administration for Overseas Investment and Financing and Return Investments by Chinese Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “Circular 37”).

Failure to comply with the registration procedures of SAFE Circular 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s PRC subsidiary to distribute dividends to its overseas parent.

M&A Rules

According to the “Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (關於外國投資者併購境內企業的規定) (the “M&A Rules”) jointly issued by MOFCOM, the State-Owned Assets Supervision and Administration Commission of the PRC State Council, SAT, CSRC, SAIC and SAFE on August 8, 2006, effective as of September 8, 2006 and further amended on June 22, 2009, where a domestic natural person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of MOFCOM; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC.

Our PRC legal advisor, JunHe LLP, have advised that the M&A Rules are not applicable to us, as Impro International had held 100% equity interest of our five PRC operating subsidiaries before September 8, 2006, the effective date of the M&A Rules, the establishment of Impro Impeller and the acquisition of Shenhai Industrial by Impro China constituted

APPLICABLE LAWS AND REGULATIONS

domestic investment of foreign-invested enterprise, and Impro Taizhou and Haimen Xinhai were wholly foreign-owned companies when being acquired by Impro International. All necessary approvals from the PRC government authorities have been obtained in respect of the Reorganization. We are not required to obtain any approval by the CSRC or the MOFCOM regarding the Reorganization and the Global Offering.

Law on Intellectual Property Rights

Trademark

The Trademark Law of the PRC (中華人民共和國商標法) (the “Trademark Law”) were promulgated in 1982 and last amended on April 23, 2019 which shall be come into force on November 1, 2019, and the Regulation on Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) was promulgated by the State Council in 2002 and amended on 29 April 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks. The Trademark Office under the State Administration for Industry and Commerce is responsible for trademark registrations. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The SAIC has the power to investigate and impose sanction on any act of infringement of the exclusive right related to a registered trademark.

Patent

According to the PRC Patent Law (中華人民共和國專利法) promulgated on March 12, 1984 and as amended on September 4, 1992, and August 25, 2000 and December 27, 2008, patent protection is divided into three categories: invention patent, utility model patent and design patent. An invention patent is intended to protect a new technical solution relating to a product, process or its improvement. A utility model patent is intended to protect a new technical solution relating to the shape, the structure, or the combination of both shape and structure of a product, which is applicable for functional use. A design patent is intended to protect new designs of the shape, the pattern or the combination of both shape and pattern, or the combination of the color with shape or pattern of a product with aesthetic and industrial application value.

Under the PRC Patent Law, the protection term for invention patents is twenty years, and the protection term for utility model patents and external design patents are ten years, in each case commencing on their respective filing dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

APPLICABLE LAWS AND REGULATIONS

THE FEDERAL REPUBLIC OF GERMANY

We operate our customer services offices in Germany and providing sales support to customers in Germany through Impro Europe. Our production plants, namely BFGM and BFGH, are operated through our subsidiaries BFG-Niederrhein and BFG-Hessen, respectively. These production plants are used in the productions of precision casting products.

German Employment and Labor Law

German Protection Against Unfair Dismissal Act (KSchG)

An employer's ability to (unilaterally) terminate an employment relationship is substantially restricted by the KSchG. The KSchG is applicable if the operation has more than 10 employees and the employee to be dismissed has been employed for more than 6 months. Under the KSchG, an ordinary dismissal (i.e. with notice) will only be effective if based on one of the three reasons for termination explicitly permitted by the KSchG. These are conduct-related dismissal, dismissal for reasons connected with the individual employee and dismissal for operational reasons.

Federal Vacation Act (BUrlG)

The BUrlG sets forth the rules regarding the minimum vacation entitlement of employees, the granting of vacation as well as the expiry of the vacation entitlement.

German Part-Time and Limited Term Employment Act (TzBfG)

The TzBfG sets forth rules to promote part-time work, to define the requirements for the permissibility of employment agreements for limited terms and to prevent discrimination against part-time and limited term employees.

German Works Constitution Act (BetrVG)

The BetrVG stipulates employee codetermination within an establishment. The most important codetermining body under the BetrVG is the works council, an elected employee representative body which has rights of its own vis-a-vis the employer. It exercises most of the codetermination rights governed by the BetrVG.

German Collective Bargaining Agreements Act (TVG)

The TVG regulates the right to and content of collective bargaining agreements. Collective bargaining agreement, inter alia, set forth a minimum standard for working conditions, such as remuneration, working hours and holiday entitlement.

APPLICABLE LAWS AND REGULATIONS

German Environmental Law

BFG-Hessen and BFG-Niederrhein must observe rules pertaining to environmental topics. Such rules are set forth in a large number of acts which serve to protect the environment and in regulations promulgated thereunder. Protection of the environment is an important goal that German authorities must enforce and which is also mentioned in the German constitution.

Waste Legislation

Main sources of law in this field are the Life Cycle Waste Management Act (KrWG) and the Landfill Site Regulation (DepV). Under the KrWG, a company must, inter alia, ensure that waste is disposed of according to the rules set forth for the respective properties, e.g. the hazardousness, of such waste and must document such disposal. Waste classified as dangerous may only be handed over to certified waste disposal contractors. The rules for the close-down and the follow up care for landfills are inter alia set forth in the DepV.

Legislation regarding the Protection of the Soil and of the Water

Main sources of law are the Federal Soil Protection Act (BBodSchG) and the Water Resources Act (WHG). Under these laws, a company is obligated to take the necessary precautionary measures to ensure that the soil and the water is not contaminated by it and to remediate contamination should it occur. These acts and the regulations promulgated thereunder stipulate that installations must be operated and that substances must be handled in a way that ensures this goal. If water is withdrawn from a body of water for the operations of a company, inter alia, the provisions of the WHG apply. If a company discharges rain water into a body of water, the discharge is regulated inter alia by the Waste Water Regulation (AbwV). The discharge of waste water from the production process into the municipal sewage water system is, inter alia, regulated by municipal waste water regulations.

Emission Control

The Federal Emission Control Act (BImSchG) and the regulations promulgated thereunder are major sources of law in this field. Their goal is the protection of the environment from detrimental effects caused by pollution of the air, noise, vibrations and similar occurrences. Pursuant to the fourth regulation promulgated under the BImSchG (4. BImSchV), a company needs a permit for the operation of steel foundries and the related installations and must operate these steel foundries in compliance with the conditions contained in such permit. Pursuant to the eleventh regulation promulgated under the BImSchG (11. BimSchV), a company must at regular intervals file a declaration with the competent authority listing relevant emissions into the air.

APPLICABLE LAWS AND REGULATIONS

Chemicals

The use of chemicals is mainly regulated by the Chemicals Act (ChemG) and the by the Regulation on the Protection from Dangerous Substances (GefStoffV), as well as the Act regarding the Transportation of Dangerous Goods (GGBefG). Pursuant to the ChemG and the GefStoffV, each chemical must be classified and labeled. The handling of the chemical and the applied protection and safety measures with regard to the chemical must be suitable with respect to the respective classification of the chemical. Under the GGBefG and the regulation GGVSEB promulgated under it, a company must, inter alia, make sure that dangerous goods that it ships are adequately packed and labeled and that the carrier is notified of the dangerous goods.

On EU-level, companies are required to comply inter alia with the REACH Regulation ((EC No. 1907/2006) (“**REACH**”) and the Classification, Labelling and Packaging (CLP) Regulation ((EC) No. 1272/2008) (“**CLP**”). REACH requires companies to identify and manage the risks linked to the substances they manufacture and market in the EU. They have to demonstrate how the substance can be safely used, and they must communicate the risk management measures to the users. CLP is based on the United Nations’ Globally Harmonised System (GHS) and its purpose is to ensure a high level of protection of health and the environment, as well as the free movement of substances, mixtures and articles. It requires manufacturers, importers or downstream users of substances or mixtures to classify, label and package their hazardous chemicals appropriately before placing them on the market. Both regulations are legally binding across the EU Member States and directly applicable to all industrial sectors.

German Occupational Health and Safety Law

Principal rules regarding occupational health and safety are set forth in the Occupational Health and Safety Act (ArbSchG) and in the accident prevention regulations which are promulgated thereunder. The ArbSchG and the accident prevention regulations inter alia set forth that the potential hazards of a job must be evaluated, that preventive occupational medical care is offered to the employees where required and that employees wear personal protective equipment where required.

German Law Regarding Exports

Pursuant to the Foreign Trade Act (AWG), the Foreign Trade Regulation (AWV) promulgated under it and Council Regulation (EC) No 428/2009 as amended by Commission Delegated Regulation (EU) No 1382/2014 of 22 October 2014, the export of certain products, in particular certain military and dual use products, to countries that are not members of the EU and also to EU member states (such intra-EU export is referred to as mere transfer (*Verbringung*)) is subject to a permission.

APPLICABLE LAWS AND REGULATIONS

Principles of German Product Liability and Product Safety Law

The Product Liability Law (ProdHaftG) sets forth the liability of the manufacturer of a product for damages caused by a defect of the product. Pursuant to the ProdHaftG also the manufacturer of an upstream product is considered as a manufacturer within the meaning of the law, the same applies to the distributor or the importer of the product. The Product Security Act (ProdSG), together with the regulations promulgated under it, stipulates that a product may only be introduced onto the market if it does not jeopardize the safety and the health of persons if used in a regular and foreseeable way. Under the ProdSG, the assessment whether a product is secure is based in particular on the characteristics of the product, on the impact of the product on other products, on the markings, warning labels and instruction manuals as well as on the group of users of the product.

Tax Law

Corporation Tax Act (KStG)

Corporation tax is the income tax for legal entities such as a GmbH. The basis of taxation is the income earned during the calendar year. What constitutes income and how it is computed is determined in accordance with the Income Tax Act by way of reference. However, the Corporation Tax Act also sets out specific provisions that only apply to legal entities. Corporation tax, like income tax, is a direct tax. It is a tax imposed on the person of the taxpayer, i.e. the legal entity, and is not deductible from income.

The Corporation Tax Act distinguishes between limited and unlimited tax liability. Unlimited liability applies to legal entities whose registered office or place of management is located in Germany. Unlimited liability for corporation tax extends to income from all sources worldwide.

Corporation tax is levied at the rate of 15% on the taxable profits.

Trade Tax Act (GewStG)

All businesses that operate in Germany are liable for trade tax. Businesses are deemed to operate in Germany if they have a permanent establishment, i.e. a place of business, in the country. The activities of a legal entity such as a GmbH are always deemed business operations.

Trade tax is collected by the relevant local authority who also determines its rate of tax. Therefore, the rates differ in accordance with the city in which the business is located. Current effective rates range from around 14% to 18% of business income, whereby smaller towns are on the lower, larger towns on the higher end.

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Value Added Tax Act (UStG)

Principally, VAT is chargeable on all public and private consumption (i.e. goods and services purchased by final consumers).

The main tax rates under the VAT Act are 19%, the general rate and 7%, the reduced rate. The tax base is the consideration for the goods or services provided.

VAT legislation has largely been harmonized within the European Union, particularly through the VAT Directive. In Germany, the main legal bases for imposing VAT are the current versions of the VAT Act; the VAT Implementing Ordinance; the “Council Implementing Regulation (EU) No 282/ 2011 of 15 March 2011 laying down implementing measures for Directive 2006/ 112/ EC on the common system of value added tax”, which entered into force on July 1, 2011 and replaced Implementation Regulation No 1777/ 2005 of October 17, 2005; and the Import VAT Exemption Ordinance. The VAT Application Ordinance, which took effect on November 1, 2010 and replaced the 2008 VAT Guidelines, provides revenue authorities with instructions on how to interpret VAT law.

Real Property Tax Act (GrStG)

Real property tax is a tax imposed on the ownership of real property. The tax base is the value of the property under tax valuation laws. The legal basis for the imposition of real property tax is the Real Property Tax Act, in the version published in the Act to Reform Real Property Tax Law of August 7, 1973, with subsequent amendments. Real property tax is collected by the local authorities who also determine its rate of tax.

Real Estate Transfer Tax Act (GrEStG)

Real property transfer tax is a transactions tax. It is imposed on transactions in respect of real property located in Germany, to the extent that these transactions transfer ownership or near-ownership status. The tax particularly applies to contracts of sale and other legal transactions under which a party acquires a right to the transfer of title to real property located in Germany.

The legal basis is the current version of the Real Property Transfer Tax Act.

Real property transfer tax is collected by the *Länder*, i.e. the German states, who also determine its rate currently ranging from 3.5 % to 6.5 % of the purchase price. It is market standard that Real Estate Transfer Tax is borne by the purchaser.

Customs Law

In principal, Germany’s Constitution grants exclusive authority to legislate customs duties to domestic federal competence. However, as a member of the EU, Germany has transferred this authority to the European Union to a vast extent.

APPLICABLE LAWS AND REGULATIONS

Therefore, the main legal bases for collecting customs duties in Germany include the following legislative acts and their subsequent amendments:

- a) Community customs law (in particular, the Council Regulation establishing the Community Customs Code, the Customs Code Implementing Provisions, and the Council Regulation on reliefs from customs duty);
- b) the Common Customs Tariff of the European Communities (Council Regulation (EEC) No 2658/ 87 of July 23, 1987, OJ L 284/ 2010) as supranational law, and the Customs Tariff Ordinance of September 24, 1986 as national law governing the national part of the tariff;
- c) the Customs Administration Act of December 21, 1992 and the Customs Ordinance of December 23, 1993 implementing the Customs Administration Act.

Intellectual Property Law

Trademark Law

In Europe, national and a European-wide trademark regimes are in place.

The European Union has enacted the harmonized trademark law in 1992 and the European Intellectual Property Office (EUIPO) was established in 1994 in Alicante (formerly known as Office for the Harmonization of the Internal Market, OHIM). Trademark registrations with the EUIPO are protected in all 28 member states of the European Union. The last amendment of the European regulation (EU) 2017/1001, i.e. introducing new forms of trademarks, came in force on October 1, 2017.

Under European law all signs capable of distinguishing goods and services originating from one company from another company can be protected. Once registered trademarks are protected for a period of 10 years and can be renewed multiple times for periods of ten years.

Trademarks under the European regime have to be used within the period of the last five years otherwise they are open to cancellation actions due to none-use. This cancellation action can be filed by anyone even without claiming any specific right to do so.

In every European member state a national trademark office is in place. Trademarks can be filed and registered with these offices and provide protection in the respective country according to the national rules. The national laws can differ substantially from another. In countries like the UK common law rights can be obtained for a sign even without substantial use. In Germany this is only possible through substantial use. Furthermore, different requirements might have to be met to renew a national trademark.

Trademarks registered with the EUIPO are enforceable in front of the civil courts in every member state of the EU. National trademark registrations are enforceable in the national courts of the respective country only.

APPLICABLE LAWS AND REGULATIONS

THE CZECH REPUBLIC

We operate our plant BFGCZ through BFG-Czech, our indirect wholly-owned subsidiary. Our plant is involved in the production and processing of precision casting products.

The production and processing of precision casting products is not a regulated industry in the Czech Republic. The Czech Subsidiary is a Czech limited liability company (s.r.o.).

Czech Environmental Law

Rules pertaining to environmental protection are primarily stipulated on the constitutional level and are further addressed in a large number of acts and regulations.

I. *Waste Legislation*

The main source of law regarding the waste regulation is the Act on Waste (Act No. 185/2001 Coll., on waste, as amended), together with Decree No. 93/2016 Coll., on the catalogue of waste ("**Waste Catalogue**"). Under those regulations the company has a duty to sort its waste to the categories as stated in the Waste Catalogue. Based on the provisions of the Act on Waste or classification according to the Waste Catalogue, waste may be classified as dangerous and then special treatment must be secured.

The Act on Waste sets forth duties for prevention of the creation of waste, preparation for recycling, other ways of using the waste, and of waste disposal.

The general duties under the Act on Waste are (i) categorization of the waste, (ii) securing other utilization of the waste (if possible), (iii) in case of waste that cannot be utilized or get rid of under the Act on Waste, transfer the property rights to it on an authorized person, (iv) checking upon the dangerousness of the waste, (v) gather the waste by categories, and (vi) checking upon the effects of the waste on the health and environment.

The legal responsibility for the waste utilization and disposal rests on the company.

II. *Legislation regarding Protection of Water*

The main legal source for the protection of water is the Water Act (Act No. 254/2001 Coll., on water resources, as amended). The Water Act sets forth precautionary measures that must be taken to protect water from contamination. In case that the use of water falls outside the scope of the general use, the individual permit is needed. This individual permit contains restrictions, rights and duties and is issued for a set period of time (maximum of 10 years in case of the disposal of waste water). An individual permit is also needed for the disposal of waste water containing extremely dangerous harmful substances and priority hazardous substances in the sewerage system (maximum of 4 years).

APPLICABLE LAWS AND REGULATIONS

III. *Legislation regarding Protection of Air*

Regulation of the protection of air is set forth mainly in the Air Protection Act (Act No. 201/2012 Coll., on the protection of air, as amended). The goal of the Air Protection Act is not to pollute the air above set limits. It distinguishes between the general limits for emission and the specific limits for emission and provides also for the limits of air pollutants. The duties of the company in connection with production and metallurgical processing of iron and steel are, inter alia, adherence to the emission limits and technical requirements, fee payments, provision of information about the operation of the source of emission (upon request of the respective authority) and enabling the respective authorities to inspect the source of emission.

Czech Employment and Labor Law

Rights and obligations ensuing from labor law relationships are governed primarily by the Labor Code (Act No. 262/2006 Coll., as amended). The provisions of the Labor Code are mostly of a mandatory nature.

Czech law recognizes the following types of labor law relationships:

- The employment relationship which is established based on an employment contract and which provides substantial protection for employees;
- The relationship outside of the employment relationship available for a limited scope of work which is established based on an agreement on performance of work or an agreement on working activity and which provide substantially lower level of the employee protection than the employment relationship.

The employment relationship may be terminated by (i) mutual written agreement, (ii) unilateral termination notice (available to the employer only for statutory reasons), (iii) cancellation during the probationary period, and (iv) immediate cancellation (available to the employer and the employee only for a very limited number of statutory reasons). A fixed term employment relationship terminates by expiration of the agreed term. The employment relationship of a foreigner also terminates in case of expiry of the work permit or similar permits, cancellation of the residency permit or expulsion from the Czech territory.

Czech Occupational Health and Safety Law

Rules regarding occupational safety and protection of health at work and fire protection are set forth, in particular, in:

- the Labor Code (Act No. 262/2006 Coll., as amended);
- the Act on Further Requirements on Occupational Health and Safety (Act No. 309/2006 Coll., as amended) stipulating further requirements for safety and protection of health at work in labor-law relationships and ensuring for safety and protection of health in activities or services provided outside labor-law relationships;

APPLICABLE LAWS AND REGULATIONS

- the Act on Protection of Public Health (Act No. 258/2000 Coll., as amended);
- the Act on Specific Medical Services (Act No. 373/2011 Coll., as amended);
- Decree of Ministry of Health of the Czech Republic No. 79/2013 Coll., on labor medical services, as amended; and
- the Act on Fire Protection (Act No. 133/1985 Coll., as amended).

These regulations stipulate rights and obligations of employers and employees in relation to the occupational safety and protection of health at work, fire protection and labor-medical care.

Key obligations of employers include:

- proactively identify risks in the area of protection of health and safety at work and implement measures to reduce or eliminate such risks, or restrict effects if such risks cannot be eliminated (e.g. regular documented checks of workplaces and compliance);
- provide the employees with first aid tools (including the appointment of an employee trained in provision of health care), personal protective tools, drinks and hygienic means;
- ensure the compliance with all technical and legal requirements with respect to technical work equipment used by the employees (e.g. technical tests, checks and certificates to be used for the designated purposes) and premises where the employees perform work (e.g. hygienic, safety, building requirements);
- ensure categorization of risks from the view of risks related to safety at work prior to commencement of work and inform employees on risks of work and the respective “risk category;”
- ensure for labor-medical services and that the employees undergo medical checks (prior to commencement of work or in case of change of job, periodical medical checks depending on the type of work, its risk category and the age of the employee, consequent medical examinations in case of a long term absence of the employee, leaving medical check);
- organize at least once a year (i) checks on occupational safety and health at all workplaces and facilities of the employer and rectify any identified irregularities (unless regulations stipulate more frequent checks) and (ii) preventive fire checks (unless regulations stipulate more frequent checks depending on the category of fire risk of the employer).

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In general, the executive directors of the employer are primarily responsible for compliance of the employer with regulations on occupational safety and protection of health at work and fire protection. The executive directors may delegate their obligations in this area to a third party (a supplier) and/or to subordinated employees. However, such delegation does not deprive them of their responsibility to ensure the compliance. In addition, as a matter of law, not only executive directors but at the same time all managing employees of the employer are obligated to manage and supervise the work of their subordinate employees and assess their work efficiency and work results and create favorable working conditions and safeguard occupational safety and protection of health at work.

Czech Product Liability Law

From 1 January 2014, Czech product liability matters are governed by the Civil Code (Act No. 89/2012 Coll., as amended). Previously, Czech regulation of product liability was contained in the Act on Product Liability (Act No. 59/1998 Coll., on liability for damage caused by a defective product). Any damage arisen before 1 January 2014 will therefore be governed by the Act on Product Liability and any damage arisen on or after 1 January 2014 will be governed by the Civil Code. Both acts contain nearly identical rules.

A manufacturer who manufactures, extracts, cultivates or otherwise obtains a defective product and introduces it to the market within the scope of its business may be held liable for any damage or loss a defective product causes. If a defective product is labeled by a name, trademark or denomination of a third person, such third person may be held jointly and severally liable for any damage or loss caused by such product.

The manufacturer is liable only for damage or loss exceeding the amount of EUR 500. The manufacturer may only be relieved from the duty to compensate the damage or loss if it proves that:

- damage or loss was caused solely by the injured party; or
- the manufacturer did not introduce the product to the market; or
- it might reasonably be expected that the defect did not exist before the introduction to the market or that the defect occurred after the introduction to the market; or
- the manufacturer did not manufacture the product for a sale or other business purpose and that it did not manufacture or distribute the product within the scope of its business activities; or
- defect of the product follows from regulations which are binding for the manufacturer; or

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- state of art at the date of introduction of the product to the market did not allow for recognizing such defect; or
- damage or loss caused by a defective product was due to its construction or manual for use of the product; this option for relief of product liability may only be exercised by a manufacturer who produced only a part of the defective product.

No person is allowed to waive its claim for damage or loss caused by a defective product prior to occurrence of such damage or loss. Any supplier or importer of a product may also be held liable if (i) the manufacturer is unknown, or (ii) the supplier or importer does not reveal the identity of the manufacturer to the injured person within one month from the date of a claim for compensation of the loss or damage.

Czech Export Control Law

Export of certain goods and technologies is strictly controlled and restricted. Sales and in particular exports of such products are only permitted if a respective permit exists. The area of trade with weapons or goods and technologies of dual use is regulated in Act No. 228/2005 Coll., on laying down trade control on products, possessing of which is limited in the Czech Republic for security reasons, as amended, Act No. 594/2004 Coll. implementing a regime of the European Communities on control of export of goods and technologies of dual use, as amended (implementing Council Regulation (EC) No. 428/2009, the export of certain products), and Act No. 38/1994 Coll., on foreign trade with military material, as amended.

Tax Law

Principal taxes applicable to companies in the Czech Republic are the corporate income tax, withholding tax, value added tax (“**VAT**”), road tax and real estate tax.

Rights and obligations with respect to the income tax and the withholding tax are governed primarily by the Income Taxes Act (Act No. 586/1992 Coll., on Income Taxes, as amended). VAT is regulated by the VAT Act (Act No. 235/2004 Coll., on Value Added Tax, as amended). The road tax applicable on vehicles used by the companies (calculated based on the engine capacity and the weight of a vehicle) is governed by the Road Tax Act (Act No. 16/1993 Coll., on Road Tax, as amended). The real estate tax paid annually by land and building owners (calculated based on the size of the land or the building) is governed by the Real Estate Tax Act (Act No. 338/1992 Coll., on Real Estate Tax, as amended).

The Czech companies are generally subject to the corporate income tax in the rate of 19%. In case that the company is the payer of VAT, the sale of goods and services of that company is subject to VAT. The general VAT rate in the Czech Republic is 21%. The reduced VAT rate of 15% applies to the supply of certain goods and services, such as food and drinks (excluding alcoholic beverages), certain medical instruments and pharmaceutical products, accommodation, public transport and social services etc. The reduced VAT rate of 10% applies to the supply of certain goods, such as child nutrition, certain medical drugs, books and cereal products.

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The general withholding tax rate for dividends, interest and royalties paid to non-residents is 15%. A parent company located in the EU, which holds at least 10% ownership interest in the Czech company for an uninterrupted period of at least 12 months, is exempted from the withholding tax. The interest and royalties paid by the Czech company to the EU parent company are exempted from the withholding tax under EU Interest and Royalties Directive (Directive No. 2003/49/EC).

Customs Law

Rules regarding customs matters are set forth primarily in (i) the Customs Act (Act No. 242/2016 Coll., on Customs, as amended) regulating, among others, the customs duty, customs proceedings and the administration of customs and (ii) the Customs Administration Act (Act No. 17/2012 Coll., on Customs Administration, as amended) relating to the operation of customs bodies and their authority.

Based on the Treaty on the Functioning of the European Union, it is prohibited to impose export and import customs duties or charges having equivalent effect among the EU member states. In case of the sale of goods between the EU countries, including the Czech Republic and Germany, no customs proceedings are necessary and the goods are not subject to any customs duty. Goods imported from outside the EU, however, may be subject to customs duties levied on their customs value determined according to the Common Customs Tariff (Regulation No. 2658/87). Goods are classified according to the TARIC (Integrated Community Tariff) code. Several bilateral and multilateral treaties have been signed by the EU (e.g. with Australia, Canada, the USA, Norway, Switzerland) and are applicable in the Czech Republic.

Intellectual Property Law

The intellectual property rights recognized in the Czech Republic are industrial property rights, copyrights and trade secrets. The protection of intellectual property rights are governed by statutes such as Copyright Act (Act No. 121/2000 Coll., as amended), Trademarks Act (Act No. 441/2003 Coll., as amended), Patents Act (Act No. 527/1990 Coll., as amended), Utility Models Act (Act No. 478/1992 Coll., as amended), Industrial Designs Act (Act No. 207/2000 Coll., as amended), and Industrial Property Rights Enforcement Act (Act No. 221/2006 Coll., as amended).

The industrial property rights may be registered with the Industrial Property Office. The duration of the individual industrial property rights is as follows:

- Patents: 20 years from the date of the application, not renewable,
- Utility models: 4 years from the date of the application or the date of the earlier application in respect of the same subject matter, repeatedly renewable upon owner's request for further 3 year period up to the maximum duration of 10 years,

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- Industrial designs: 5 years from the date of the application, repeatedly renewable upon owner's request for further 5 year period up to the maximum duration of 25 years, and
- Trademarks: 10 years from the date of the application, renewable upon owner's request for another 10 years.

Copyrights grant protection for original works of authorship in any objectively perceivable manner. Trade secrets protection relates to facts which are significant from perspective of competitiveness, are identifiable, valuable and in relevant business circles generally unavailable. Copyrights and trade secrets may not be registered with the Industrial Property Office.

THE UNITED STATES

We manage our logistics centres and warehouses and engage in sales and customer services activities through Impro USA.

Labor and Employment Laws

The employment of individuals in the United States is governed by federal, state and sometimes local laws. The full scope of labor and employment laws in the United States is beyond the scope of this disclosure. The following highlights important areas of regulatory activity to illustrate the legal issues involved but does not explain every single law, interpretation or application because in many cases, the issues will be highly fact-specific. Labor and employment laws can generally be categorized under the headings of (i) equal employment opportunity, (ii) wage and hour, (iii) disability, and (iv) workplace safety. Typically, national laws set the minimum legal standard for employee rights, and state and local laws, if adopted, enhance those rights. In particular, the laws of the State of California often materially enhance employee rights, as noted in greater detail below. Most employees in the United States are hired "at-will," meaning that their employment can be terminated at any time, with or without notice or cause. However, individual employment agreements between an employee and employer may vary this status, and even an at-will employee may not be terminated for an illegal reason (such as discrimination or harassment, as described below), nor may an employee be terminated or otherwise retaliated against for engaging in protected activity under the law. All employees must provide verification of their eligibility to work in the United States.

Equal Employment Opportunity Laws

Employers in the United States are prohibited from discriminating against individuals based on a variety of specific protected categories. These protections apply to individuals who are applying for jobs as well as to actual employees. In the United States, it is generally illegal to (i) refuse to hire or employ; (ii) refuse to promote; (iii) demote, discipline or terminate an employee; or (iv) provide reduced compensation or other benefits to individuals, based on their age, physical or mental disability, race, color, national origin, religion, sex or gender (which

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includes gender identity, pregnancy, childbirth, or related medical conditions), sexual orientation, veteran status, marital status, citizenship, political activity or affiliation, ancestry, medical condition (as may be defined under state law, such as in California), taking or requesting statutorily protected leave, or any other basis protected by law.

In addition, employers are required to maintain workplaces that are free of harassment based on any of the foregoing protected characteristics by taking reasonable steps necessary to prevent discrimination and harassment from occurring. Harassment can be verbal, physical, or visual. California state law specifically requires that employers post specific anti-harassment policies and, in companies with more than 50 employees, provide bi-annual training to all supervisors regarding avoidance of sexual harassment and bullying in the workplace.

Individuals who believe they have suffered discrimination or harassment may pursue claims through state and U.S. federal governmental agencies as well as the courts. Aggrieved individuals may be awarded compensatory damages consisting of back pay (money the individual would have earned but for the discriminatory conduct), front pay (additional money the individual is paid to reflect diminished future earnings), pain and suffering, emotional distress and their attorneys' fees and costs. In addition, courts may award punitive damages when the illegal conduct is deemed to have been willful.

Wage and Hour Obligations

All employers are required to pay employees a minimum wage for hours worked and to pay employees premium pay for overtime hours unless the employee fits within an exemption. The exemptions are narrowly construed and generally apply to executives, managers and professionals, as well as certain computer and sales personnel. The United States Department of Labor has issued detailed U.S. federal regulations regarding each category of exemption. While Illinois and California state laws generally parallel U.S. federal law in this area, California, in particular, has adopted certain rules unique to itself that require employers to verify that positions are exempt under both U.S. federal and California state law standards.

There are also detailed definitions for what constitutes compensable working time. These definitions can, in their finer points, vary between the state and U.S. federal laws. For example, under U.S. federal and Illinois state law, time spent by a non-exempt employee in transit on an overnight trip which is outside of normal working hours is not considered working time. Under California state law, however, that time must be compensated. Under U.S. federal and Illinois state law, employers are required to pay non-exempt employees a premium of 1.5 times the employees' regular rate of pay for all hours worked over 40 in a workweek. California has additional requirements for daily overtime when non-exempt employees work more than 8 hours in a day. California and Illinois both provide for mandatory meal periods for non-exempt employees, though how they do so varies.

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The details of all of the applicable wage and hour rules is beyond the scope of this disclosure, although it is worth noting that this is a highly regulated area where employers must endeavor to comply with a combination of federal, state and local laws. The failure to comply with these laws or technical requirements regarding the timing and form of wage payments can result in awards of damages and penalties to be paid to employees and to the State of California, if applicable. Prevailing employees are eligible to recover their attorneys' fees and costs, as well as the actual underpaid wages and penalties.

Workplace Safety

The Federal Occupational Safety and Health Act ("**OSHA**") sets minimum standards for workplace safety in the United States. California has adopted its own version of OSHA; Illinois has not. As a general proposition, both the U.S. federal and California state OSHA laws require employers to furnish employees with a place of employment that is safe and healthful. California employers are required to adopt and maintain an Injury and Illness Prevention Program. The details of such programs and the measures required under both the U.S. federal and state regulatory schemes will vary substantially by industry and location. Factors employers should take into consideration when evaluating the worksite include, but are not limited to, (i) environmental hazards such as chemicals or exposure to other toxic substances; (ii) the safe use of machinery; (iii) risk of repetitive stress injuries due to prolonged bending, lifting, or even keyboarding; (iv) outside risks such as the risk of criminal activity; and (v) access to first responders such as ambulance, fire and police.

An employer's failure to comply with OSHA laws can result in awards of fines and damages. While workplace injuries in California and Illinois typically are covered by Workers' Compensation Insurance programs, the failure to follow appropriate workplace safety standards may be alleged to constitute an intentional tort that may create a substantial separate right of recovery for the employee or employees involved in a workplace accident. Due to the prevalence of repetitive stress injuries such as carpal tunnel syndrome among office workers, workplace safety issues are no longer considered to be specific solely to industrial and agricultural sites.

Product Liability

Manufacturers, suppliers, distributors and retailers of defective products are subject to being sued in the United States for injuries and damages caused by their products under broad and consumer-friendly products liability laws. The applicable laws for product liability litigation are not delineated in a single all-encompassing body of law or statutes. Rather, each of the 50 states in the United States offers different laws and judicial precedents that can vary vastly from one state to another. Additional differences can arise between the federal judicial system and a particular state's court system. While circumstances and jurisdictions can differ in significant ways, the following provides a broad overview of the approaches to product liability law that are generally followed in the majority of the states within the United States.

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Product defects fall into three broad categories: (1) manufacturing defects, which occur during the construction or production of the particular item, (2) design defects, which are inherent to the item and exist before the item is manufactured, and (3) inadequate product warnings or instructions. Some states have also added an additional post-sale duty to warn of a known defect, designed to prevent future injuries involving the same product.

In many states, a product will be considered defective if a court or jury determines the product to be unsuitable for the specific purpose for which it was intended. In some other states, the question is whether the product is unreasonably dangerous. Other states evaluate the product from the perspective of the reasonable expectation of the user (“consumer expectation test”), while others follow a variation of one of the foregoing standards. Failure-to-warn claims usually consider whether inherent dangers could have been mitigated or avoided through adequate warnings to the user.

Plaintiffs generally assert claims against a manufacturer premised on theories of liability based on negligence, breach of an express or implied warranty, or strict liability. Most jurisdictions permit the submission of a case under multiple theories, so it is common to see a plaintiff plead his complaint under all of the aforementioned theories of liability. Regardless of the theory a plaintiff chooses to pursue, the burden is generally on the plaintiff to establish and prove (1) that the product in question was defective, (2) an injury, and (3) a causal relationship between the defect and the injury.

Negligence is the failure of a manufacturer to do something that a manufacturer exercising reasonable care under the circumstances would have done in the same or similar circumstances. Generally, a negligence claim requires the plaintiff to demonstrate that the defendant owed a legal duty of care, the defendant breached that duty, and such breach caused the plaintiff’s injury. In evaluating whether the defendant’s act was reasonable, courts will usually consider several factors, including custom in the industry, standards imposed by state and U.S. federal regulations, the foreseeability and likelihood of an injury, the seriousness and frequency of injury, and the expense and feasibility of eliminating or warning against the anticipated injury. Taking these types of factors into account, courts will often judge the manufacturer’s conduct against whether the risks imposed on the consumers were excessive when compared to the benefits arising from the manufacturer’s conduct.

A claim for breach of warranty is governed by contract law. The vast majority of states (with the exception of Louisiana) have adopted Article 2 of the Uniform Commercial Code (“UCC”), which governs the sale of goods. Under Article 2 of the UCC, there are express warranties and implied warranties. An express warranty can be created by a representation by the seller, a description of the good which is made part of the basis of the bargain, or by showing a sample or model of a product to the buyer where the buyer reasonably assumed that the whole of the goods would conform to the sample. An implied warranty, on the other hand, covers those expectations common to all products (e.g., that the product is fit for its ordinary purpose) and is presumed to have been made by the seller unless it is clearly and unambiguously disclaimed in writing as part of the sales agreement.

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Strict liability is a theory of liability adopted by most states. A lawsuit based on strict liability does not depend on the fault or lack of care by the manufacturer. Rather, such a lawsuit is based solely on the presence of a defect that renders the product unreasonably dangerous and that causes injury. Strict liability can extend to component part manufacturers and to situations where the consumer's combined use of finished products of different suppliers caused the injury and where the finished product of only one of the suppliers was defective.

Product liability suits may be brought by individual plaintiffs who have sustained injury, death, or property damage due to a defective product, or by groups of plaintiffs who have suffered similarly-situated claims relating to a product and who are certified by a court as a proper class of plaintiffs to act together to bring a class action suit in the United States. Manufacturers may also be subject to cross-claims or third-party claims for indemnity or contribution brought by other defendants in a product liability suit. This may occur, for example, when a retailer, who has sold the allegedly defective product made by a manufacturer, is sued by the user of the product (the retailer turns around and sues the manufacturer for the damages the retailer suffers as a result of the product user's lawsuit against the retailer), or when a manufacturer, who included an allegedly defective component in its product, is sued by the user of the product.

If a product liability claim is proven, the following types of damages, among others, may be recoverable by the plaintiff depending on the particular facts and the specific jurisdiction: (1) money damages for pain and suffering; (2) money damages for lost earnings or medical expenses; (3) long-term care expenses; (4) loss of financial support; (5) loss of consortium; (6) damage to property; and (7) punitive damages in the event the plaintiff can demonstrate reckless or intentional behavior on the part of the manufacturer. Punitive damages awards can be many times higher than the amount of compensatory damages and they are not awarded to compensate an injured party but rather to punish past and deter future misconduct. In some jurisdictions, plaintiffs may also be able to recover statutory damages and attorneys' fees if a state or U.S. federal statute permits such recovery. Usually, such statutes target specific goods or industries. The sources for these regulations are either state statutes or administrative regulations that place specific requirements on certain industries. Such requirements often take the form of labeling or licensing requirements and are usually enforced by public health or state safety agencies or by state attorneys-general. Civil and/or criminal penalties may be imposed for violations of the safety-driven consumer product regulations.

In addition to the state products liability scheme discussed above, additional laws and regulations focused on public safety and welfare may apply for particular products within certain industries.

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Import, Export, and Economic Sanction Laws and Regulations

Importation

Importation of goods into the customs territory of the United States is governed principally by the Tariff Act of 1930, as amended, the Customs Modernization Act of 1983, and the regulations of U.S. Customs and Border Protection (“**CBP**”).

Under these laws and regulations, U.S. importers have primary legal responsibility for initially valuing, classifying, and determining the rate of duty applicable to imported merchandise. The importer is required to exercise “reasonable care” in entering merchandise into the United States. This includes when providing to CBP information and documentation necessary for it to assess duties on imported merchandise, collect accurate import statistics, and determine whether an import complies with applicable laws.

Civil penalties may be assessed against any person who uses false or misleading statements to enter goods into the United States. In determining the applicable penalty for such a wrongdoing, CBP first determines the applicable degree of culpability of the offending party. In general, higher penalties are assigned to more egregious offenses, which are classified according to degree of culpability as due to negligence, gross negligence, or fraud. CBP considers that a violation is a result of negligence “if it results from failure to exercise reasonable care and competence: (a) to ensure that statements made and information provided in connection with the importation of merchandise are complete and accurate; or (b) to perform any material act required by statute or regulation.” Gross negligence and fraud are found in more egregious cases where circumstances indicate more than a lack of due care. Gross negligence is assigned where CBP finds a violation done “with actual knowledge of or wanton disregard for the relevant facts and with indifference to or disregard for the offender’s obligations under the statute.” Fraud is assigned where the act was “committed (or omitted) knowingly, i.e. was done voluntarily and intentionally, as established by clear and convincing evidence.” Where false statements affect the assessment of duties on imports, the statutory maximum civil monetary penalties vary depending on whether the violation is due to fraud, negligence, or gross negligence.

In addition to regulating the process of importation into the United States, CBP is charged with enforcing the import and export-related regulations of approximately 40 other U.S. federal agencies. Each such agency promulgates regulations governing importation of the products under their jurisdiction. CBP is charged with ensuring that imports (and exports) comply with those regulations and is authorized, in many cases, to effect seizures, forfeitures, and rejection of entry of non-conforming goods.

Export Controls

U.S. export control laws and regulations govern the export of goods, technology and services from the United States and any subsequent re-export of such goods, technology and services from one non-U.S. country to another. These laws and regulations consist primarily of the International Traffic in Arms Regulations (the “**ITAR**”), which implement the Arms Export

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Control Act (the “**AECA**”) and regulate international defense trade involving the United States, and the Export Administration Regulations (the “**EAR**”), which implement the Export Administration Act of 1979 (the “**EAA**”), as amended, and apply to most U.S. items that are not controlled under the ITAR. Additional export controls are contained in the U.S. economic sanctions laws and regulations, as discussed below.

A. *Arms Export Control Act and International Traffic in Arms Regulations*

The AECA provides the authority to control the export of defense articles and defense services and charges the President of the United States to exercise this authority, which has been delegated to the Secretary of State. The office administering the ITAR is the U.S. Department of State, Directorate of Defense Trade Controls (“**DDTC**”).

The ITAR govern exports and temporary imports of defense articles and defense services that are covered under the United States Munitions List (“**USML**”). The term “defense articles” is defined in the ITAR to include any item (commodity or software) or technical data that is identified on the USML. An item may be designated by DDTC as a defense article, and thus within DDTC’s jurisdiction, if the item either (1) meets the criteria of a defense article or defense service on the USML; or (2) provides the equivalent performance capabilities of a defense article on the USML. In addition, an item will be designated in the future as a defense article or defense service (and added to the USML) if it provides a critical military or intelligence advantage such that it warrants control under the ITAR.

A “defense service” is defined in the ITAR as “the furnishing of assistance (including training) to foreign persons, whether in the United States or abroad, in the design, development, engineering, manufacture, production, assembly, testing, repair, maintenance, modification, operation, demilitarization, destruction, processing or use of defense articles.” The definition of “defense service” also includes the furnishing to a foreign person of any technical data or of military training, whether in the United States or abroad.

All manufacturers, exporters and brokers of defense articles, defense services, or related technical data are required to register with DDTC. Manufacturers of defense articles must register even if they do not export, and have no intention of exporting, their defense products. Registration does not confer any export rights or privileges, but is a precondition for the issuance of any license or other approval for export.

The most fundamental ITAR-controlled transaction is the export. The term “export” is defined broadly to include sending or taking a defense article out of the United States or disclosing (including oral or visual disclosure) or transferring a defense article or technical data to a foreign person or to an embassy, agency or subdivision of a foreign government in the United States. For defense services, “export” means performing a defense service for a foreign person, whether in the United States or abroad.

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Under the AECA and the ITAR, all exports of a defense article or defense service require prior authorization by DDTC. This is provided in the form of a license, unless authorization is established under one or more of the ITAR license exemptions. Notably, DDTC maintains the list of countries that are subject to a U.S. arms embargo, to which DDTC will not ordinarily authorize exports of defense articles or defense services.

The reach of the ITAR extends beyond the initial export of defense articles and includes re-exports and retransfers of such items. In these circumstances, the ITAR controls any transfer of a defense article to an end-use, end-user or destination that is not previously authorized by DDTC. The ITAR also controls temporary imports (i.e., the import and subsequent export) of defense articles. (Permanent imports of defense articles are regulated, if at all, by the U.S. Department of Justice, Bureau of Alcohol, Tobacco, Firearms & Explosives, not by DDTC.)

Disclosing (including oral or visual disclosure) technical data or providing defense services to a “foreign person,” whether located in the United States or abroad, is considered by DDTC to be an export to that individual’s “home country.” To avoid violating the ITAR under this “deemed export” concept, companies that manufacture or export defense articles, or that possess ITAR-controlled technical data, must ensure that their employment of foreign persons is in compliance with the ITAR.

Violations of the AECA or ITAR are strictly enforced and subject to both criminal and civil liability. Criminal penalties for willful violations include a fine of up to US\$1 million, and imprisonment for the up ten years, per violation. In addition, DDTC is authorized to impose civil monetary penalties of up to US\$1,163,217 per violation, as well as possible debarment from ITAR-regulated defense trade, or denial, revocation, or suspension of export authorizations or privileges.

B. Export Administration Act and Export Administration Regulations

The EAR, administered by the U.S. Department of Commerce, Bureau of Industry and Security (“**BIS**”), govern the export and re-export of items “subject to the EAR.” Generally, “items subject to the EAR” include virtually all U.S.-origin commodities, software, and technology (military, non-military, and dual-use) that are not controlled under the ITAR or under the exclusive jurisdiction of another U.S. governmental agency. In limited circumstances, services are also covered. More specifically, items “subject to the EAR” include (i) all items in the U.S. (except publicly available technology and software); (ii) all U.S.-origin items located outside the U.S.; (iii) certain foreign-made items that include more than de minimis amounts of controlled U.S. content; and (iv) foreign-made national security items that are the direct product of U.S.-origin national security technology or software.

The EAR sets forth different levels of restrictions on export based on the item and its corresponding reasons for control. The Commerce Control List (“**CCL**”) identifies items that are subject to specific licensing requirements under the EAR. For each item, the CCL identifies the reasons for control (e.g., anti-terrorism, crime control, short supply, missile technology) and the precise specifications for the controlled item. Depending on the country of destination

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and reasons for control, the EAR may require a license by BIS to conduct the export transaction. In addition, all items “subject to the EAR,” including those not listed on the CCL (so-called “EAR99” items) are subject to export licensing requirements to certain prohibited end-users, end-uses, and destinations. Failure to obtain a required export license, or to comply with any conditions or order issued in connection with an export license, is a violation of the EAR.

The EAR define broadly transactions that constitute exports. These include actual shipments or transmissions of items subject to the EAR out of the United States, and releases or other transfers of technology or software source code subject to the EAR to a foreign person in the United States. Releases of technology or software include through (i) visual or other inspection (e.g., reading technical specifications, plans, or blueprints) by a foreign person of items that reveals technology or source code; and (ii) oral or written exchanges with a foreign person of technology or source code in the United States or abroad. The EAR likewise controls reexports of U.S.-origin items, which are defined as these same types of exports but occurring outside the United States.

In addition to CCL-based controls, the EAR provide certain prohibitions applicable to all items subject to the EAR and certain activities by U.S. persons. These restrictions include restrictions on entering into transactions with prohibited end-users such as parties that have been identified by BIS as having engaged in export violations or activities contrary to the national security or foreign policy interests of the United States (including parties listed on the Denied Persons List, the Entity List, and the Unverified List). They include also restrictions on engaging in export transactions where the exporter knows or has reason to know that the products to be exported (or re-exported or re-transferred) are destined for a prohibited end-use. Prohibited end-uses include use in the design, development or use of nuclear items, chemical or biological weapons, certain unmanned aircraft and rocket systems, maritime nuclear propulsion systems, missile delivery systems, weapons of mass destruction, terrorist activities, and military end-uses in the People’s Republic of China, Russia, or Venezuela. In addition, even where no export is involved, the EAR prohibit U.S. persons from performing any contract, service, or employment that the U.S. person knows will directly assist in the design, development, production, or use of missiles in certain listed countries, or in the design, development, production, stockpiling, or use of chemical or biological weapons in or by any country or destination, worldwide.

Violations of the EAA or EAR are subject to potential criminal and civil penalties, as set forth in the Export Control Reform Act of 2018. Criminal penalties apply to knowing and willful violations of the EAR and involve monetary fines up to US\$1 million per violation and imprisonment of up to 20 years. Civil monetary penalties for violations of the EAA or EAR may be up to the greater of US\$300,000 per violation or twice the value of the transaction. BIS may impose additional administrative penalties, such as seizures or forfeitures of exported items and loss or suspension of export privileges.

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C. *Deemed Exports*

Under both the EAR and the ITAR, an export of technology from the United States is deemed to take place anytime U.S. technology is transferred, released or accessed by non-U.S. persons. A release of technology to a non-U.S. person is deemed to be an export to the non-U.S. person's home country. This "deemed export" rule applies to releases of technology to any non-U.S. person, including Company employees, visitors, vendors and customers, even if the release occurs wholly within the United States. A release of technology may occur in a variety of situations, as for example, when a foreign person visitor is given a plant tour that permits visual observation of the plant's production area.

D. *Anti-Boycott Regulations*

The U.S. anti-boycott laws prohibit U.S. and certain non-U.S. persons from complying with or agreeing to comply with a request where the purpose of the request is to support, give effect to or comply with a boycott of any country in contravention of the laws or policies of the US, including the Arab League boycott of Israel.

The U.S. anti-boycott laws are administered by the Department of Commerce's Bureau of Industry and Security (BIS), and the Department of the Treasury. The rules and regulations administered by BIS apply to U.S. persons, with respect to activities in the interstate or foreign commerce of the United States. The term "U.S. person" is defined to include (i) individuals who are U.S. residents and nationals; (ii) corporations and unincorporated associations resident in the U.S., including the permanent domestic affiliates of foreign concerns; and (iii) "controlled in fact" foreign subsidiaries (such as partnerships, affiliates, or branch offices) of U.S. concerns.

The EAR requires U.S. persons to report quarterly requests they have received that relate to an unsanctioned foreign boycott. Reportable requests can be oral or in writing, and can take many different forms, including contracts, purchase orders, letters of credit, trademark applications, powers of attorney, certificates of origin, conditions in a tender, etc. A request is reportable if the recipient "knows or has reason to know that the purpose of the request is to enforce, implement, or otherwise further, support, or secure compliance with an unsanctioned foreign boycott or restrictive trade practice." Failure to report to BIS boycott-related requests is violation of the EAR.

Economic Sanctions

The U.S. imposes various economic sanctions against targeted countries, groups, and individuals (collectively, the "**U.S. Sanctions Programs**"). Each sanctions program is authorized under either IEEPA or the Trading with the Enemy Act of 1917 ("**TWEA**"). Most are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**"), while aspects of certain sanctions programs are administered by the U.S. Department of State. Export-related aspects of restrictions against certain countries are also under the jurisdiction of the EAR and administered by BIS.

APPLICABLE LAWS AND REGULATIONS

The U.S. Sanctions Programs include both comprehensive trade restrictions, i.e. embargos, against countries or regimes, and selective sanctions measures, depending on foreign policy and national security objectives sought to be achieved through sanctions. In some cases, sanctions are directed against designated groups, including terrorist organizations, narcotics traffickers, weapons proliferators, and others, and include blocking and asset freeze requirements related to sanctioned parties.

A. *Comprehensive Sanctions Programs*

The U.S. maintains comprehensive embargoes against Cuba, Iran, North Korea, Syria, and the Crimea region of Ukraine. Persons subject to U.S. sanctions are prohibited from most transactions involving these countries, including exports, imports, sales, services, and financial transactions that pertain to the sanctioned country or persons in the sanctioned country. In addition, the U.S. Sanctions Programs against these countries include blocking provisions that prohibit U.S. persons from dealing in any property or property interest of certain designated persons or entities in each country.

In general, the comprehensive sanctions programs apply only to “U.S. Persons.” This is defined to include “any United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States.” However, in recent years, OFAC, the President, and the U.S. Congress have adopted measures to extend the reach of U.S. sanctions beyond U.S. borders. This has been accomplished by targeting foreign sanctions evaders and transactions that evade or avoid, cause a violation of, or attempt to violate the sanctions, and conspiracies formed for those purposes. In addition, the Cuban and parts of the Iranian sanctions programs apply to non-U.S. subsidiaries of U.S. persons (i.e., entities owned or controlled by a United States person and established under the laws of another nation or maintained outside the United States).

B. *Sanctions Against Targeted Regimes, Entities and Individuals*

In addition to the comprehensive sanctions programs, the U.S. maintains “list-based” sanctions programs against targeted regimes, entities and individuals that have been found to have taken actions contrary to the foreign policy or national security interests of the United States.

In the United States, there are three primary sanctions lists that are maintained by the U.S. Treasury Department’s Office of Foreign Assets Control (“**OFAC**”). The most extensive is the List of Specially Designated Nationals and Blocked Persons (the “**OFAC SDN List**”). The OFAC SDN List comprises persons and entities whose property or interests in property are required to be blocked or “frozen” if in the U.S. or under U.S. jurisdiction. OFAC is authorized to direct persons subject to U.S. jurisdiction to block or freeze property in which a sanctions target (i.e., an SDN) has an interest, however remote. Consequently, U.S. Persons are prohibited from virtually all transactions with SDNs or their property (absent OFAC authorization).

APPLICABLE LAWS AND REGULATIONS

C. *Sanctions Against Targeted Industries*

Finally, under the recently-enacted Ukraine-related sanctions program, OFAC now maintains a separate list of parties that are subject to industry-specific sanctions, known as the Sectoral Sanctions Identification List. In the case of Russia, “Sectoral Sanctions” have been imposed against certain Russian energy resource projects, the Russian defense sector, and Russian banks. The Sectoral Sanctions restrict certain trade and exports by U.S. persons with those sectors, and dealings by U.S. persons in long-term debt or equity of designated parties in those sectors.

In addition, since 2010, the U.S. Congress and the President have both taken steps to expand the reach of U.S. sanctions against Iran to not only prohibit activities by U.S. persons, but also to penalize non-U.S. persons that trade with certain industries in Iran. These so-called “secondary sanctions” target, among other things, Iran’s petroleum resources, refined petroleum, petrochemical, automotive, shipping, and banking industries. Non-U.S. companies that are found to engage in significant transactions in these Iranian industries are subject to a menu of potential U.S. sanctions, which cut off access to U.S. financial and other markets.

The U.S. has also recently enacted limited secondary sanctions targeting elements of government of the Russian Federation by prohibiting certain transactions and investments involving the Russian Federation.

D. *Violations*

Penalties for violations of the U.S. Sanctions Programs are prescribed under IEEPA. They include civil penalties of up to the greater of US\$295,141 per violations or twice the value of the transactions, and criminal penalties up to US\$1 million per violation and imprisonment of up to 20 years.

Tax Law

Federal Government

The U.S. federal government can levy a variety of taxes on U.S. businesses, non-U.S. businesses trading in the United States, and business owners and their employees. Depending upon the business structure, examples of such taxes include corporate franchise tax, income tax, capital gains tax on long-term sales, income tax on dividends and interest, income tax on partnership profits and employee payroll taxes.

Under some U.S. income tax treaties, non-U.S. companies can be exempt from U.S. federal income taxes if they do not create a “permanent establishment” in the United States. However, once a company undertakes certain actions in the U.S., such as paying office rent, hiring U.S. employees or contractors, sending non-U.S. employees to the U.S. to set up and manage the business or hiring a U.S. agent with authority to bind the non-U.S. company, the company may lose this treaty protection. In such a situation, the non-U.S. company may be deemed under U.S. law to have created a permanent business establishment in the U.S.

APPLICABLE LAWS AND REGULATIONS

State and Local Government

In addition to the federal government, the 50 states and local county and city governments play an important role in taxing and regulating business activity within their respective jurisdictions. For example, business activities within a state may be subject to the state's business and personal income tax, payroll tax, sales tax, franchise tax and other taxes. In addition, some local governments, such as counties and cities, may impose their own similar taxes. If a business has sales or employees in more than one location, state and local taxes generally will be pro-rated depending on the percentage of income, number of employees and other factors associated with each location.

Although US treaties have the ability to exempt overseas companies from paying U.S. federal taxes, the same treaties might not apply to state and local taxes.

Registration and Regulation

There is no such thing as a "U.S. corporation." Instead, corporations in the United States are registered and organized in one of the 50 states. In addition to its legal formation in a particular state, a corporation that does business in more than one state may need to qualify or register to do business in other states if the corporation's activities establish "minimum contacts" for tax purposes in those states.

Like the laws of individual nations in the European Union, individual state laws apply to business transactions occurring in each state, unless such laws conflict with, or are superseded by, U.S. federal law, which takes precedence over state and local law. For this reason, U.S. businesses frequently must comply with separate federal, state and local regulations.

Antidumping Regulations

The U.S. federal government prohibits unfair global competition by prohibiting non-U.S. entities from selling products in the U.S. for unreasonably low prices. The usual test is whether the goods are being sold in the U.S. for less than they are sold for in the home market. If a company is found to be violating antidumping regulations, U.S. customs can impose additional duties on the imported goods.

Transfer Pricing Rules

The U.S. federal government requires related parties to transact with each other using arm's length pricing. In effect, this prohibits multinationals from avoiding income tax on U.S.-generated profits by overcharging their U.S. subsidiaries for foreign-made products. In the event that this occurs, U.S. federal tax authorities will "readjust" the prices charged by the non-U.S. entity to its wholly owned U.S. subsidiary.

APPLICABLE LAWS AND REGULATIONS

Intellectual Property Law

The United States has federal and state laws that govern intellectual property rights (IPRs).

Rights governed by federal law

The IPRs that are the exclusive domain of federal law are copyrights and patents.

Copyrights. A copyright is a set of exclusive rights owned by the creator of an original work that is fixed in tangible form. A copyright (i) covers expressions, not ideas; (ii) cannot be purely functional; and (iii) must be an original work. U.S. copyright law is governed by the Copyright Act of 1976, codified at 17 U.S.C. 101 *et seq.* The creator of an original work fixed in a tangible form owns the copyright for the work (absent any pre-existing assignment) once the work comes into existence. Ownership does not require registration. Enforcing ownership rights in U.S. courts, however, requires registering the copyright with the U.S. Copyright Office. The Copyright Office is responsible for examining copyright applications and either granting or rejecting registration. It also makes registered works available to the public through the Library of Congress. Registering a copyright before any unauthorized use by others also provides an owner with other benefits, including the ability to obtain statutory damages in lieu of proving actual damages.

Patents. A patent is a government grant providing the patent owner with the right to exclude others from using a claimed invention or practicing a claimed method. A patent is obtained by filing an application with the USPTO claiming a useful, novel invention. The application must comply with various requirements set forth in the Patent Act (codified at 35 U.S.C. § 1 *et seq.*) and regulations established by the USPTO, which is an agency within the U.S. Department of Commerce.

Rights governed by both federal and state law

Trademarks and service marks. A “mark” is the use of one or more words, symbols, or logos to identify and distinguish the mark owner’s goods and/or services. A trademark is a mark used for goods; a service mark is a mark used in connection with providing services. U.S. trademarks and service marks generally must (i) be different from prior marks, (ii) not be generic, and (iii) not be descriptive. U.S. federal trademark law is governed by the Lanham Act, codified at 15 U.S.C. § 1051 *et seq.* The U.S. Patent and Trademark Office (“**USPTO**”) is responsible for examining trademark and service mark applications and either granting or rejecting applications to register marks. Once granted, a trademark or service mark provides its owner with nationwide exclusivity within one or more particular fields of use.

State law is an alternative basis for trademark and service mark rights, either under specific state laws or under common law. Some states have registries for trademarks and service marks. The rights inherent in such marks are limited to the state where they are used.

APPLICABLE LAWS AND REGULATIONS

Trade secrets. A trade secret is information that (i) has independent economic value from being generally unknown by the public and (ii) is the subject of reasonable efforts under the circumstances to maintain its secrecy. Trade secrets are governed by both federal and state law.

The Defend Trade Secrets Act, codified at 18 U.S.C. § 1836, *et seq.* (**DTSA**), is the federal trade secret law. Enacted recently in 2016, the DTSA applies only to trade secrets used in interstate or foreign commerce. The DTSA provides specific remedies for trade secret misappropriation, including *ex parte* seizure in specific and generally rare instances.

The DTSA is similar to the Uniform Trade Secret Act (UTSA), a model set of laws enacted by almost all fifty states within the U.S. A trade secret owner may often have a choice in enforcing its trade secret rights under the DTSA or a relevant state's version of the UTSA.

THE GRAND DUCHY OF LUXEMBOURG

Impro Europe carries out the functions as a financial holding company (Soparfi). Impro Europe is also involved in managing our logistics centre and sales activities. The following is a summary of certain laws and regulations in the Grand Duchy of Luxembourg which are applicable to our business operations in the country.

Luxembourg Corporate Law

The establishment and operation of corporate entities in the Grand Duchy of Luxembourg in the legal form of limited liability companies (*société à responsabilité limitée* - **Sàrl**) is governed by the Luxembourg Companies Act of 10 August 1915, as amended (the **Companies Act**).

A Sàrl is a company in which a limited number of shareholders contribute a specific amount and the shares of which, represented exclusively by non-transferable securities, can be transferred only in accordance with the terms and conditions provided in the Companies Act.

A Sàrl has the status of a legal person and the liability of a Sàrl to its creditors is limited to the value of assets owned by the Sàrl. Liabilities of shareholders of a Sàrl are generally limited to the amount of registered capital they have subscribed to.

A Sàrl is established by way of the notarization of the articles of association in front of a Luxembourg notary followed by the registration of the Sàrl with the Luxembourg Business Register ("**LBR**").

A Sàrl may have one or more shareholders. The number of shareholders is in principle limited to one hundred. The shareholders of a Sàrl can be either companies or natural persons. Such companies or natural persons may be Luxembourg or foreign national or residents.

Shareholders of a Sàrl are required to fully pay in their shares upon subscription.

APPLICABLE LAWS AND REGULATIONS

A Sàrl has one constitutional document, the articles of association (*statuts* - **Articles**). The Articles, combined with the provisions of Luxembourg corporate law regulate the internal affairs of the Sàrl. The shareholders have wide discretion when agreeing the scope and content of the articles.

A Sàrl is managed by one or more managers (*gérants*) which can be shareholders or not. The managers carry out the day to day business of the Sàrl and represent the Sàrl solely or jointly vis-à-vis third parties in accordance with the provisions of the Articles. The scope of representation of a manager cannot be validly restricted vis-à-vis third parties. A manager can be an individual or legal entity. A manager does not have to be a Luxembourg national or resident. Managers can be appointed and removed without indicating any reasons by the shareholders. Any appointment or removal of a manager becomes immediately effective upon execution of the shareholder resolution and shall thereafter be registered with the LBR. Unless the Articles provide otherwise, the managers may take any action necessary or useful to the realization of the corporate object of the Sàrl with the exception of those reserved to the shareholders.

Resolutions of shareholders will be adopted in general meetings. If the number of shareholders does not exceed sixty, shareholders may pass their vote in writing. Shareholders resolutions will be passed by a majority of more than 50% of the corporate capital. Amendments to the Articles including capital increase and decreases, require the approval of a majority of shareholders representing at least three quarters of the corporate capital.

Tax Law

Luxembourg levies an annual income tax rate (the “**CIT**”) on the net worldwide profits of Luxembourg resident companies in accordance with the provisions of the amended income tax law dated December 4, 1967 (the “**ITL**”).

The effective combined 2018 CIT rate, i.e. CIT, solidarity surtax, and municipal business tax) for Luxembourg City is 26.01%.

According to article 50bis of the ITL, net income from the exploitation of IP rights including patents, trademarks, designs, copyrights on software or domain names acquired or created after December 31, 2007 benefit from a tax exemption of 80% under certain conditions. This may apply also for deemed IP-income if the IP is created for a company’s own use. Capital gains realised on the sale of intellectual property also benefit from this tax system.

Intellectual Property Law

According to law dated April 17, 2018 (the “**2018 Law**”) amending the ITL, a new Luxembourg IP regime has been introduced in 2018. The content of the 2018 Law is based on the modified nexus approach and thus reflects the content of the BEPS Action 5 report released by the OECD in 2015.

APPLICABLE LAWS AND REGULATIONS

The 2018 Law, introduced via a new article, article 50ter of ITL, is applicable as from tax year 2018, alongside - without any combination possibility - the former IP regime set forth under article 50bis ITL (until 30 June 2021, i.e. the end of the latter's grandfathering period).

Broadly speaking, the 2018 Law foresees an 80% CIT exemption on the adjusted and compensated net eligible income and capital gains derived from eligible IP assets multiplied by a specific ratio (eligible expenses with a possible uplift of up to 30% / total expenses), as well as a full exemption from net wealth tax on these assets.

Customs Law

As an EU Member State, Luxembourg is part of the single market without customs barriers, which ensures the free circulation of goods. Imports from another EU Member State are not subject to any customs duties. Goods imported from outside the EU, however, may be subject to customs duties levied on their customs value determined according to the Common Customs Tariff. Goods are classified according to the TARIC (integrated Community Tariff) code. Several bilateral and multilateral treaties have been signed by the EU (e.g. with Australia, Canada, the USA, Norway, Switzerland) and are applicable in Luxembourg.

TURKEY

The following is a summary of certain laws and regulations in Turkey that are applicable to the business operations of Cengiz Makina, an indirect wholly-owned subsidiary of our Company established in Turkey as a limited liability joint stock company under the Turkish Commercial Code (Law No: 6102) (*published in the Official Gazette dated February 14, 2011 and numbered 27846*).

Direct Foreign Investments

As per the Direct Foreign Investments Law (Law No. 4875) (*published in the Official Gazette dated June 17, 2003 and numbered 25141*), a "direct foreign investment" is (i) foundation of a new company or opening of a branch, or (ii) acquisition of capital shares directly (not through the Istanbul Stock Exchange), or (iii) acquisition of shares or securities equal to at least 10% of voting rights in a company traded on the Istanbul Stock Exchange by a foreign investor using economic assets supplied from abroad or from the domestic market set forth under the relevant law. As per the direct foreign investments legislation, foreign investors may freely transfer abroad net profits, dividends, proceeds of sale, proceeds of liquidation, compensation amounts, amounts payable under license, management and similar agreements, foreign credit principal and interest payments which may arise out of their activities and transactions in Turkey via banks and private financial institutions. However, a company including a foreign investor is under the obligation to make certain notifications to General Directorate of Incentive Implementation and Foreign Investment which are (i) an annual notification with respect to the share capital and activities, (ii) payment made to the share capital account, and (iii) share transfers in the company.

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Transfer of Foreign Exchange

As per the Council of Minister's Decision No. 32 on Protection of the Value of Turkish Currency, foreign currencies can be freely imported to Turkey. Residents in Turkey can (i) accept payments in foreign currencies from abroad for their transactions to be contemplated in Turkey, and (ii) transfer foreign currencies abroad via banks.

Financial Leasing, Factoring and Financing Companies Law

A number of machines used by Cengiz Makina during the course of its operations is subject to financial leasing agreements. As per the Financial Leasing, Factoring and Financing Companies Law (Law No. 6361) (*published in the Official Gazette dated December 13, 2012 and numbered 28496*), financial leasing agreements shall be executed in writing. The agreements shall be notified to the Financial Leasing, Factoring and Financing Companies Union by the financial leasing companies and registered before the relevant registry based on the type of property. In case of the expiry of the financial leasing agreements, a lessee who did not exercise its right to purchase or who did not have such a contractual right shall immediately return to the property subject to financial leasing to the financial leasing company.

Regulations Relating to Business Operations in an Organized Industrial Zone

OIZ Law and Regulation

Organized industrial zones ("OIZs") are zones allocated to industrial activities within an organized scheme that affords advantages in terms of urban planning, use of resources, infrastructure, and environmental management. Participants in such zones are subject to the OIZ Law (Law No: 4562) (*published in the Official Gazette dated April 15, 2000 and numbered 24021*) and Organized Industrial Zone Implementation Regulation (*published in the Official Gazette dated February 9, 2019 and numbered 30674*) (the "**OIZ Regulation**"), Cengiz Makina is located in the TOSB Taysad Organized Industrial Zone established in Kocaeli, Turkey and is therefore subject to the OIZ Law and the OIZ Regulation as a participant in an OIZ. The material provisions of the OIZ Law and the OIZ Regulation are as follows:

- **Ownership restrictions:** Participants in OIZs are required to fulfil certain obligations as set forth under the OIZ Law and the OIZ Regulation. Accordingly, under Article 18/3 of the OIZ Law and Article 61 of the OIZ Regulation, participants are prohibited from using the OIZ land they own for purposes other than their predetermined allocation purpose. Participants are prohibited from transferring, selling or assigning the land they own to third persons before full payment of their obligations and commencement of the facility's operation. As per Article 57 of the OIZ Regulation, the relevant OIZ may establish a redemption right on the immovable properties of participants to be exercised in the event of the participant's failure to comply with its obligations. Nonetheless, such redemption right shall only be effective until the commencement of the facility's operation.

APPLICABLE LAWS AND REGULATIONS

- **Permits and Licenses:** Pursuant to Article 42 of the OIZ Regulation, a number of permits and licenses such as utilization permit and the workplace opening and operation permit shall be obtained from and subject to the inspection of the relevant OIZ administration in accordance with the procedure envisaged under the OIZ Regulation. Besides, pursuant to Article 46 of the OIZ Regulation, any material repair or modification to the buildings in the OIZs are also subject to obtainment of permits from the authorized OIZ in this regard.
- **Payment of Management Allowance:** Under Article 16 of the OIZ Law, participants shall pay management allowance in the amount determined by the OIZ Entrepreneur administration in accordance with the size of parcel of land owned by the participant in the OIZ and shall contribute to costs regarding operation of waste treatment facilities and costs concerning infrastructural facilities and common services in the amount determined by the OIZ administration.
- **Procurement of Infrastructure Services:** As per Article 20/1 of the OIZ Law, the right to establish and operate infrastructure and general service facilities such as electricity, natural gas, water, drainage, roads, communication and sports facilities needed by the participants and/or the OIZ, to distribute those purchased from public and private institutions, and to establish and operate production facilities is vested solely in the OIZ.

Regulation on Workplace Opening and Operation Licenses

According to the Public Health Law (Law No 1593) (*published in the Official Gazette dated 6 May 1930 and numbered 1489*) and the Regulation on Opening and Operating a Workplace (*published in the Official Gazette dated August 10, 2005 and numbered 25902*), a workplace in Turkey cannot commence its operations without obtaining a Workplace Opening and Operation License (*Isyeri Acma ve Calisma Ruhsati*) from the pertinent administrative body, i.e. municipality or provincial directorate, OIZ administration.

Regulations Relating to Product Liability, Quality and Consumer Protection

Turkish Code of Obligations

The Turkish Code of Obligations (Law No. 6098) (*published in the Official Gazette dated February 4, 2011 and numbered 27836*) (the “TCO”) is the main body of Turkish law with respect to contracts and torts. Accordingly, the TCO governs contractual issues relating to defective goods and product liability in sales agreements. For liability claims under the TCO, the product must either be defective in the named and promised qualities, or have physical, legal, or economic deficiencies that remove or materially harm the value and benefits expected by the buyer in relation to the intended use of the products.

APPLICABLE LAWS AND REGULATIONS

Consumer Protection Law

Consumer Protection Law (Law No. 6502) (*published in the Official Gazette dated November 28, 2013 and numbered 28835*) includes measures to protect the health and safety of consumers, as well as their economic interests, by detailing consumer rights and compensation grounds for defective goods and various specific types of agreements for the provision of goods and services. The Consumer Protection Law extends joint and several liability to sellers, manufacturers, and importers with respect to consumer claims. The statute of limitations for liability claims related to defective products is two years from delivery, regardless of when the defect appears, provided that the parties have not assumed liability for a longer period by law or contract. In any case, product liability claims expire within ten years from the introduction of the defective product into the market. The relevant prescription period does not apply if the defect is hidden by gross fault or deceit by the seller.

Law Regarding the Preparation and Implementation of Technical Legislation For Products

Law Regarding the Preparation and Implementation of Technical Legislation For Products (Law No. 4703) (*published in the Official Gazette dated July 11, 2001 and numbered 24459*) regulates the introduction of new products to the Turkish market and the safety, compliance and quality assessment of such products, as well as market supervision and audits and the required notifications under this framework.

Regulation Regarding the Market Supervision and Auditing of Products (*published in the Official Gazette dated January 17, 2002 and numbered 24643*) governs the supervision, oversight and auditing measures with respect to products distributed or circulated in the Turkish market or new products being introduced to the Turkish market and their safety and compliance with the relevant technical regulation. As a principle, Turkish technical standards and regulations apply and adapt European Union technical standards and regulations.

Regulations Relating to Environmental Matters

Environmental Impact Assessment

Pursuant to Article 10 of the Environmental Law (Law No: 2872) (*published in the Official Gazette dated August 11, 1983 and numbered 18132*), legal entities, which may cause environmental problems as a result of their contemplated investments are subject to the EIA Regulation (*published in the Official Gazette dated November 25, 2014 and numbered 29186*), which divides contemplated investments and operations which fall within its framework into two groups: Projects Subject to Environmental Impact Assessment (the “**EIA Projects**”) and Projects Subject to the Selection and Election Criteria (*Seçme Eleme*) (the “**SEC Projects**”). According to this dual regime, investments covered within the scope of EIA Projects are required to obtain an “EIA Affirmative Certificate” through submission to the Ministry of Environment a number of documents including an EIA Report. On the other hand, investments covered within the scope of SEC Projects are required to apply to the Ministry of Environment together with a project presentation file (*proje tanıtım dosyası*), an undertaking confirming the

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accuracy of the information and documents set out in the project presentation file and a signature circular. Upon submission of these documents, the Ministry of Environment will make an evaluation and thereafter issue a decision either stating that “EIA is not necessary” or “EIA is necessary.” If the facilities obtain an “EIA is not necessary” decision for their projects, they are required to start the investment within a limited period of time as set forth under the pertinent regulation on EIA. If the facilities obtain an “EIA is necessary” decision, their projects must be re-analysed within the scope of EIA Projects and thus they must follow again the procedure explained above. Investments will not be granted permission, approval, incentive, construction licence (*inşaat ruhsatı* in Turkish) or a building utilization permit (*yapı kullanma izni* in Turkish) or will not be subjects of investment and tender, unless an “EIA Affirmative” decision or a decision stating that “EIA is not necessary” is obtained from the Ministry of Environment.

Environmental Permits and Licenses

The Environmental Permits and Licenses Regulation (*published in the Official Gazette dated September 10, 2014 and numbered 29115*) (the “**Regulation**”) has been enacted with a view to create a mechanism allowing for one global “environmental permit” or an “environmental permit and license” that replace all the licenses and permits required (and granted) under the Environmental Law. An environmental permit refers to the permits granted for all of the emission, discharge, noise control, deep sea discharge and hazardous waste discharge activities, whereas an environment license indicates the technical sufficiency of a licensee for collection, recovery, recycling and destruction of wastes. Accordingly, if a facility engages in activities which require both an environment permit and license, it needs to apply for an “environment permit and license,” which is one certificate granting all the required permits and licenses.

Pursuant to Article 11 of the Environmental Permits and Licenses Regulation, environment permits and licenses issued to plants/facilities shall be valid for five years and renewal applications for these permits and licenses shall be made 180 days before their expiry dates. In the event that the facility location, scope of activity, fuel or combustion system changes, or the total production, combustion or heat power of the facility is increased at a rate of at least 1/3 (or another rate specified under Annex 1 of the Regulation), a renewal application for any and all valid environmental permits and licenses is required within 30 calendar days.

Waste Management

Turkish legislation on waste management foresees certain obligations to be complied by the producers of different types of wastes.

The Waste Management Regulation (*published in the Official Gazette dated April 2, 2015 and numbered 29314*) (the “**Wastes Regulation**”) has replaced and repealed the former Hazardous Wastes Regulation, Solid Wastes Control Regulation and Regulation on General Principles of the Waste Management, and covers the wastes formerly regulated under the abovementioned repealed regulations. The Wastes Regulation regulates production,

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transportation, storage and/or disposition, destruction, export and import of wastes and imposes on the waste producers the obligation to take a number of precautions and make a number of notifications to the administrative authorities for minimization of the environmental impacts of the regulated wastes.

Pursuant to the Environmental Law, violation of the provisions of the Wastes Regulation may result in monetary penalty depending on the characteristic of the violation. Additionally, producers, transporters, and individuals/entities in charge of disposal of waste are held liable for environmental pollution and damages caused by such wastes even if no fault is attributed to them and are obligated to compensate such damages in accordance with the general provisions of the Turkish Code of Obligations.

Water Pollution Management

The objective of the Regulation on Water Pollution Control (*published in the Official Gazette dated December 31, 2004 and numbered 25687*) (the “**Water Control Regulation**”) governs the terms and conditions in relation to collection, treatment and discharge of domestic waste water, mixture waste water and waste water from certain industrial facilities. Pursuant to this regulation, an environmental permit is required for all types of domestic and industrial wastewater being discharged into the sea, lakes, underground water sources, etc. as described under the Regulation on Environmental Permits and Licenses.

Industrial Air Pollution Management

The Regulation on Control of Industrial Air Pollution (*published in the Official Gazette dated July 3, 2009 and numbered 27277*) (the “**Air Pollution Regulation**”) is the regulation currently in force with respect to the control of the air pollution arising from the industrial facilities. The facilities within the scope of the Air Pollution Regulation are under the obligation to prevent any pollution by using the most convenient production and/or treatment techniques, to take the necessary precautions to prevent any damages to the nearby real properties and to comply with the emission limits and other technical requirements provided under this regulation. The owners of facilities with environmental permit are further obliged to report the developments and changes on the terms and conditions of environmental permit every two years. Additionally, pursuant to Article 29 of the Air Pollution Regulation, the governorship is authorized to order the facilities to limit the total level of emission they release in the critical zones for a temporary or permanent period of time.

Regulations Relating to Labour and Employment Matters

Labour Code

The Turkish Labour Code (Law No. 4857) (*published in the Official Gazette dated June 10, 2003 and numbered 25134*) (“**Labour Code**”) regulates the rights and obligations of employers and employees with respect to their working conditions and workplace, as well as covering matters related to employment contracts.

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Occupational Health and Safety

The Law on Occupational Health and Safety (Law no: 6331) (*published in the Official Gazette dated June 30, 2012 and numbered 28339*) and the Regulation on Occupational Health and Safety Services (*published in the Official Gazette dated December 29, 2012 and numbered 28512*) regulate the liabilities, rights, responsibilities and duties of both employers and employees in order to ensure occupational health and safety.

Trade Unions

Trade unions and collective bargaining agreements are regulated by the Trade Unions Law (Law no: 6356) (*published in the Official Gazette dated November 7, 2012 and numbered 28460*). The purpose of this law is to stipulate the principles and the procedures on the establishment, management, operation, audit, activities and organization of the employee trade unions and employer trade unions and confederations and the principles and the procedures on conclusion of collective bargaining agreements in order for employees and employers to mutually determine their economic, social and working conditions, on the settlement of disputes and on strikes and lock-outs.

Membership in a trade union is voluntary. As per Article 24 of Trade Unions Law, an employer shall not terminate the employment contracts of union representatives unless there is a justified ground for termination and without providing the reason in a clear manner and in writing. The union representatives or the trade union of which he is a member of shall have the right to file a lawsuit within one month following the receipt of the termination notice.

In addition, further to Article 25 of the Trade Unions Law, the recruitment of employees shall not be subject to any condition such as a being a member of a trade union or not and withdrawing from a trade union membership. Moreover, the employer shall not make discrimination between employees who are trade union members and those who are not, or those who are members of different trade unions, with respect to working conditions or termination of employment contracts. The provisions of the collective bargaining agreement regarding the issues of salaries, bonuses, premiums and money-related social benefits shall be reserved. Furthermore, none of the employees shall be dismissed or discriminated due to being a trade union member or not, participation in the activities of trade unions or employee organizations outside the working hours or within the working hours with the employer's permission. If an employer fails to comply with these provisions it shall be liable to pay a union compensation which shall not be less than the annual salary of the employee.

In case of termination of employment contract due to the trade union based reasons, an employee shall have the right to file a lawsuit as per Articles 20 and 21 of Labour Code. If it is determined that the employment contract has been terminated due to the trade union based reasons, a union compensation shall be ordered regardless of the re-employment conditions stated under Article 21 of the Labour Code. However, in case the employee is not re-employed by the employer, the compensation specified in the first paragraph of Article 21 of the Labour Code shall not apply.

APPLICABLE LAWS AND REGULATIONS

Collective Bargaining Agreements

Collective bargaining agreements are defined as agreements that are executed between employee trade unions and employer trade unions or employers that are not members of employer trade unions. There is no obligation in Turkey to enter into a collective bargaining agreement for any sector of business or for any workplace. A collective bargaining agreement shall contain provisions regarding the content, execution and termination of employment contracts. Collective bargaining agreement may also contain other provisions such as mutual rights and obligations of the parties, application and supervision of the agreement and the steps to be taken for the settlement of disputes.

Collective bargaining agreements shall be concluded for a period to be not less than one year and not more than three years. After the conclusion of a collective bargaining agreement, the parties shall not extend or reduce the term of the agreement or terminate it before the expiration date.

Unless otherwise agreed in the collective bargaining agreement, the provisions of the individual employment contracts cannot contradict with the provisions of the collective bargaining agreement. The provisions of the employment contracts that are contrary to a collective bargaining agreement shall be replaced by the provisions of that collective bargaining agreement. In cases where the provisions of the collective bargaining agreement is contrary to the individual employment contracts then the provisions which are in favour of the employees shall be deemed valid. Moreover, the provisions of the collective bargaining agreement which have been related to employment contracts and expired shall continue to be binding as the provisions of an employment contract until a new collective agreement enters into force.

Social Security

Employees residing and working in Turkey shall be subject to the Turkish Labour Code. In accordance with the Labour Code, all employees shall be registered under the payroll of the employer legal entity in Turkey and the relationship between the employer and the employee shall be deemed an employment relationship. Moreover, all employees subject to the Labour Code are required to be registered with the mandatory social security system regulated by the Turkish Social Security Institution (“**SSI**”). Such rule is strictly applicable and there are penalties and administrative sanctions against working and having employees work without registration or notification to the SSI. According to the Law on Social Securities and General Health Insurance (Law No. 5510) (*published in the Official Gazette dated June 16, 2006 and numbered 26200*) (“**Social Security Law**”), the mandatory social security system provides, amongst other benefits, unemployment pay, work accident pay, maternity pay, death pay, pension pay, sick pay and disability pay.

APPLICABLE LAWS AND REGULATIONS

Pursuant to Article 79 of the Social Security Law, social security premiums of employees are paid to the SSI by employers and employees as a percentage of the employee's gross earnings. As per the mandatory social security system, in calculation of the social security premium all the monthly monetary benefits and the other benefits which can be measured in monetary terms arising from the employment relationship and from the law shall be taken into consideration in addition to the wage of the employee.

For employees working under an employment or service contract as indicated under Article 4/a of the Social Security Law, premiums with respect to long and short-term insurance, general health insurance and insurance for disablement, old age and death shall be paid to the SSI by their employers by deducting the amount equal to the employee's share of premium collected over total earnings from employees' salaries and adding the amount of premium to be paid by the employers.

As per Article 86 of the Social Security Law, the employers are obliged to submit to the SSI monthly premium and service documents, which are standard forms provided by the SSI. Monthly premium and service documents include identifying information on employees, employees' earnings to be taken as basis for premium calculation, days worked, employment start date and terminations, as well as related total statistics for the relevant month. Failure of an employer to duly and timely submit to the SSI monthly premium and service documents will be subject to administrative fines in accordance with Article 102 of the Social Security Law. In addition, the employers are liable to keep the records and documents for 10 (ten) years following the year to which they relate and to duly submit such records and documents to the SSI officers within 15 (fifteen) days, if requested.

In accordance with the Social Security Law, a deficient declaration of income by the employers will result in deficient payment of the required premiums. Therefore, pursuant to Article 85 of the Social Security Law, if an employer has declared the salaries of the employees less than the actual amount determined under the employment or service contract to the governmental authorities in order to avoid the higher amount of social security premium, then the employer will be subject to administrative sanctions together with the applicable default interests indicated under Article 102 of the Social Security Law. Pursuant to Article 93 of the Social Security Law, premiums and receivables of the SSI shall be subject to a statute of limitation of 10 (ten) years starting from the calendar year following the date on which payment period has expired.

Customs Law

Exporting and importing rules applicable to the import of raw materials and packaging, and the export of manufactured products, are governed under the Customs Law (Law No. 4458) (*published in the Official Gazette dated November 4, 1999 and numbered 23866*). ("**Customs Law**") and related legislations.

APPLICABLE LAWS AND REGULATIONS

Turkey and the EU formed a customs union on January 1, 1996. The agreement covers industrial products and processed agricultural goods. The Republic of Turkey adopted the EU's common external tariff (CCT), resulting in lower duties for imports from countries outside the union countries, including the United States. Within the union, there are zero duty rates and no quotas for non-agricultural items of EU and European Free Trade Association (EFTA) origin.

The import tariff that is calculated based on the sales price of the imported goods (Art. 24 of Customs Law) and all other additional financial obligations are organized under the Customs Law, Law on Customs Tariff Schedule (Law No. 474) (*published in the Official Gazette dated May 14, 1964 and numbered 11711*) and related legislations such as Decisions on Importation Regime and Communiqués on Importation that are issued as an annex to these Decisions. Latest Communiqué on Importation, namely Communiqué on Importation 2017/1 has been published in the Official Gazette dated December 31, 2016 and numbered 29935.

Tax Law

Corporate Income Tax

Tax rules applicable to the activities of Turkish commercial enterprises are governed under the Corporate Income Tax Code (the "**CIT Code**") (Law No. 5520) (*published in the Official Gazette dated June 13, 2006 and numbered 26205*). Pursuant to the CIT Code, joint stock companies such as Cengiz Makina shall be subject to corporate income tax at the rate of 20% over its net income gained in a financial year. In determining the net income, the related provisions of the Income Tax Code (Law No. 193) (*published in the Official Gazette dated January 6, 1960 and numbered 10700*) shall be taken into consideration.

Value Added Tax and Stamp Tax

Value Added Tax ("**VAT**") is regulated, principally, by the Value Added Tax Code (Law No. 3065) (*published in the Official Gazette dated November 2, 1984 and numbered 18563*) (the "**VAT Code**"). Pursuant to the VAT Code, provision of services and delivery of goods are subject to VAT and the party that delivers such goods is obligated to pay the VAT amount. Stamp Tax is regulated principally by the Stamp Tax Code (Law No. 488) (*published in the Official Gazette dated July 11, 1964 and numbered 11751*) (the "**STL Code**"). Pursuant to STL Code, agreements, undertakings and assignment documents with a monetary commitment are subject to a stamp tax at 0.948% of the amount indicated under the relevant document. The parties who have executed such documents or transactions are obligated to pay the stamp tax accrued under such documents or pursuant to such transaction.

Tax Procedure Code

Tax Procedure Code (Law No. 213) (*published in the Official Gazette dated January 10, 1961 and numbered 10703-10705*) sets forth the procedural and formal rules required to be followed in terms of tax matters under Turkish law.

APPLICABLE LAWS AND REGULATIONS

Intellectual Property Law

Trademarks

Trademarks are governed under the Industrial Property Law (published in the Official Gazette dated January 10, 2017 and numbered 29944), and the protection thereunder is realized by registration of the trademarks at the Turkish Patent and Trademark Office. The rights provided by the trademark shall be effective against third parties as of the publication date of the trademark registration. The trademark right is valid for 10 years as of the application date. This period may be renewed at the end of each 10-year period for another 10-year period. The provisions of the Industrial Property Law shall cease to apply to trademarks which have not been renewed within six months after the expiry of the period of protection.

MEXICO

Both Impro Industries Mexico and Impro Aerospace Mexico are limited liability companies with variable capital (*sociedades de responsabilidad limitada de capital variable*) duly incorporated under the laws of the United Mexican States (“Mexico”).

The production and processing of high-precision machining components, investment casting products and surface treatment as performed by Impro Industries Mexico is not a regulated industry in Mexico. Currently, Impro Aerospace Mexico is acting as a dormant entity.

The following is a summary of the relevant applicable laws and regulations in Mexico to our business in Mexico:

- Mexican Corporate, Commercial and Tax Laws
- Mexican Customs and Foreign Trade Laws and Rulings
- Mexican Labor and Social Security Laws
- Mexican Environmental and Health and Safety Laws

Mexican Corporate and Commercial Laws

There are three main sources for Mexican corporate and commercial law: (i) the Federal Commerce Code (*Código de Comercio*), containing the different obligations for all merchants in general, acts of commercial nature and the most typical commercial contracts, regulating electronic commerce and registrar obligations and regulating the procedural activities to air commercial disputes and litigation; (ii) the General Law of Commercial Companies (*Ley General de Sociedades Mercantiles*), regulating the different types of commercial enterprises

APPLICABLE LAWS AND REGULATIONS

used in Mexico; and (iii) the Foreign Investment Law (*Ley de Inversión Extranjera*) and its Ruling, which sets forth a series of rules in order to channel foreign investment into Mexico and regulate and restrict certain activities and industries from the intervention of foreign investors. Per the Mexican Constitution, all commercial activities must be regulated and bound to federal legislation and jurisdiction; hence, these legal bodies are applicable across the Mexican Republic regardless of where the companies conduct their businesses.

Mexican Federal Tax Laws, Regulations and Rules

Both Mexican and foreign tax residents that perform business activities in Mexico are subject to several different tax laws and regulations, particularly the Income Tax Law and its Ruling, the Value Added Tax and its Ruling, the Federal Fiscal Code and its Ruling, and the General Miscellaneous Tax Rules.

Tax Laws

Income Tax Law and its Ruling

Mexican tax residents are subject to Mexican Income Tax for any income obtained worldwide at the general corporate 30% rate. On the other hand, foreign tax residents are subject to withholding Income Tax on any Mexican source income obtained. The withholding rate applicable to foreign residents depends on the type of income obtained.

Value Added Tax Law and its Ruling

Any entity, whether Mexican or foreign resident for tax purposes that performs any of the activities listed in the Mexican Value Added Tax Law (namely, sale of goods, provision of independent services, lease of real estate property, as well as the importation and exportation of goods) within Mexican territory is subject to the payment of Value Added Tax for those activities. Generally, the Value Added Tax rate is 16% for such activities.

Federal Fiscal Code and its Ruling

Mexican and foreign tax residents are subject to the compliance of several periodic tax obligations, which are specifically established in the Mexican Federal Fiscal Code. The Federal Fiscal Code shall be applied supplementary to the customs provisions.

General Miscellaneous Tax Rules

All general regulations applicable to Mexican Federal taxes are established in administrative rules issued by the Mexican Tax Administration Service. These Rules usually are updated from time to time depending on general specific scenarios and tax treatment to certain activities.

APPLICABLE LAWS AND REGULATIONS

Mexican Customs and Foreign Trade Laws and Rulings

Customs Law and its Ruling

This law and regulations govern the entry into national territory and exit therefrom of merchandise and the means of its transport or conduction, the customs clearance, and all facts and acts deriving from such clearance or from said entry or exit of merchandise.

Any entity introducing merchandise into national territory or extracting it therefrom, whether as owners, possessors, consignees, consignors, customs agents or other persons having intervention in the introduction, extraction, custody, storage, handling or holding of merchandise or in any of the acts or facts mentioned in the last preceding paragraph, are obligated to comply with said provisions.

General Customs Rules

Any entity with customs operations in Mexico is obligated to comply with the provisions contained in such rules. All general regulations applicable to customs operations are established in administrative rules issued by the Mexican Tax Administration Service, such as Value Added Tax and Special Excise Duty Certification, as well IMMEX operation procedures.

Foreign Trade Law

Any entity with customs operations in Mexico is obligated to comply with the provisions contained in such Law. The Foreign Trade Law regulates international trade with Mexico and prohibits unfair trade practices such as dumping and trade subsidies. Additionally, contains provisions on import quotas and non-tariff regulations and restrictions.

Decree for the Promotion of the Manufacturing, Maquiladora and Export Services Industry (“IMMEX Decree”)

Any entity holding an IMMEX program is obligated to comply with the provisions contained in such decree. IMMEX operation in Mexico is governed by the “IMMEX Decree”, IMMEX program allows the temporary importation of goods (including any material, parts and components, machinery and equipment) used in the manufacture of export products or in the rendering of export services.

Decree for the Promotion of Sectorial Programs (“PROSEC Decree”)

Any entity holding a PROSEC program is obligated to comply with the provisions contained in such decree. Sectoral Promotion Programs (PROSEC) are aimed at legal entities that produce certain goods, allowing them to import diverse goods for use in the development of specific products at preferential ad-valorem tariffs (General Import Tax).

APPLICABLE LAWS AND REGULATIONS

General Import and Export Duties Law

Any entity with customs operations in Mexico is obligated to comply with the provisions contained in such Law. The General Import and Export Duties Law, establish the Import and Export taxes, based on the tariff bracket (HT Code) in which the imported goods are classified in accordance with the Tariff of the General Import and Export Taxes Law. Duties are determined by tariffs that are calculated on a percentage, specific or joint dues determined in such law.

Federal Duties Law

The Federal Duties Law states that the “Customs Processing Fee” (DTA for its acronym in Spanish) applies in general to every foreign trade operation performed by maquiladoras and regular Mexican entities.

Mexican Labor and Social Security Laws

Federal Labor Law

All Mexican entities that directly employ workers must follow the minimum provisions set forth by the Federal Labor Law (“FLL”). The FLL establishes the basic employment conditions that all employers have to provide, as well as the litigation rules to solve controversies amongst the parties. Similarly, this law contains the penalties for the case of non-compliance with the labor provisions.

Social Security Law

It is a mandatory requirement for Mexican entities to enroll their employees before the Social Security Institute (“IMSS” for its acronym in Spanish). Hence, the Social Security Law establishes de basic provisions related to contributions effected by employers, as well as the insurance and pension benefits for employees which have been enrolled before the institute.

Immigration Law and its Ruling

Any employer that hires a foreign employee to work in Mexico must follow the provisions set forth by the Immigration Law, regarding the mandatory registration as an employer that has to be effected before the National Immigration Institute. Similarly, the Immigration Law establishes the variable options that foreign nationals have to enter Mexico and their obligations whilst in the country.

APPLICABLE LAWS AND REGULATIONS

Mexican Environmental and Health and Safety Laws

General Law on Ecological Equilibrium and Environmental Protection (Ley General de Equilibrio Ecológico y Protección al Ambiente — “LGEEPA”), Environmental Risk and Impact Regulation and Air Emission Regulation

LGEEPA is the primary environmental law in Mexico. LGEEPA distributes powers between the three levels of government and sets out environmental regulations for all sources of pollution: air, soil and water. In its regulations, specific authorizations, permits, and licenses are determined such as all stationary sources of air pollution must obtain an operating license or an Environmental Impact Assessment must be filed and authorized prior to the beginning of operations.

When federal legislation is not applicable, State legislation must be applied for environmental risk, impact and air emissions.

General Law on the Prevention and Comprehensive Management of Waste (Ley General para la Prevención y Gestión Integral de los Residuos)

According to this law, waste should be classified as hazardous waste, special management waste and solid waste. This classification determines the competence of the environmental authority issuing the corresponding permits. Multiple permits, from multiple environmental authorities can apply to one single facility/plant. All industrial operations must employ authorized environmental service providers for transporting and/or disposing hazardous and nonhazardous wastes. While self-generated wastes does not require other than the generators’ registry, the facility where the waste is stored must meet certain specifications.

Additionally, State legislation (law and regulation) is applicable for special handling wastes.

Federal Law on Environmental Liability (Ley Federal de Responsabilidad Ambiental) (LFRA)

Pursuant the LFRA, environmental liability has a statute of limitation of 12 years (starting from the day that the environmental damage and its effects were produced) for breaches on any environmental laws and its regulations.

INDUSTRY OVERVIEW

The information and statistics in this section are derived from various official government publications and other publications and from the market research report prepared by Roland Berger which was commissioned by us for purposes of this prospectus. We believe that the sources of the information in this section are appropriate and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, affiliates, advisors or representatives, or any other person involved in the Global Offering, and no representation is given as to its accuracy or completeness. The information and statistics may not be consistent with other information and statistics compiled within or outside of China. Such information should not be unduly relied upon. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Roland Berger Report.

SOURCE OF INFORMATION

We commissioned Roland Berger Hong Kong Limited, an independent market research consulting firm, to conduct an analysis of the global and PRC precision component market. Roland Berger is a global independent strategy consulting firm, providing management consulting services, including product and market forecasts, industry trends analysis, threats and opportunities analysis, competitive strategies and company profiles. Certain information set forth in this section has been extracted from the Roland Berger Report, a research report that was commissioned by us for the purpose of this prospectus. We paid a total amount of RMB3.15 million to Roland Berger for the Roland Berger Report.

The Roland Berger Report presents data, research opinion or viewpoints developed independently on our behalf and does not constitute a specific guide to action. Our Directors are of the view that the information set forth in this section is reliable as Roland Berger, in preparing the Roland Berger Report, has used various sources, including third-party market studies, publicly available financial statements, government statistical reports, press releases, industry associations' publications, expert interviews, and interviews of relevant suppliers (including us). Its independent research was undertaken through both primary and secondary research. The primary research involved in-depth interviews with various industry constituents. The secondary research involved research and comparison of public information. The Roland Berger Report speaks as of its final publication date, which is April 25, 2019 (and not as of the date of this prospectus), and the opinions and forecasts expressed in the Roland Berger Report are subject to change without notice.

INDUSTRY OVERVIEW

The following parameters are considered in the market sizing and forecast model for investment casting and sand casting: (i) underlying market size; (ii) investment casting penetration rate; and (iii) downstream product price and cost breakdown. For precision machining, parameters include (i) machine tool parc; (ii) total machine tool output; and (iii) outsourcing ratio. The Roland Berger Report, including the forecasts contained therein, are prepared based on the following assumptions: (i) the global social, economic and political environment remains stable in the forecast period; (ii) identified policies are expected to remain consistent in the target research markets; (iii) identified growth drivers of target research markets are expected to remain relevant and applicable in the forecast period; and (iv) identified penetration rate of casting and development of related technologies are expected to remain stable in the target research markets.

As at the Latest Practicable Date, not all industry data, statistics and market information for the year ended December 31, 2018 are available. Our Directors confirm that, after taking reasonable care, there is no material adverse change in the market information since the issue date of the Roland Berger Report which may qualify, contradict or have adverse impact on the information in this section.

OVERVIEW OF GLOBAL PRECISION COMPONENT INDUSTRY

Precision components are manufactured primarily by metal transformation techniques such as metal casting and precision machining, followed by secondary machining and surface treatment.

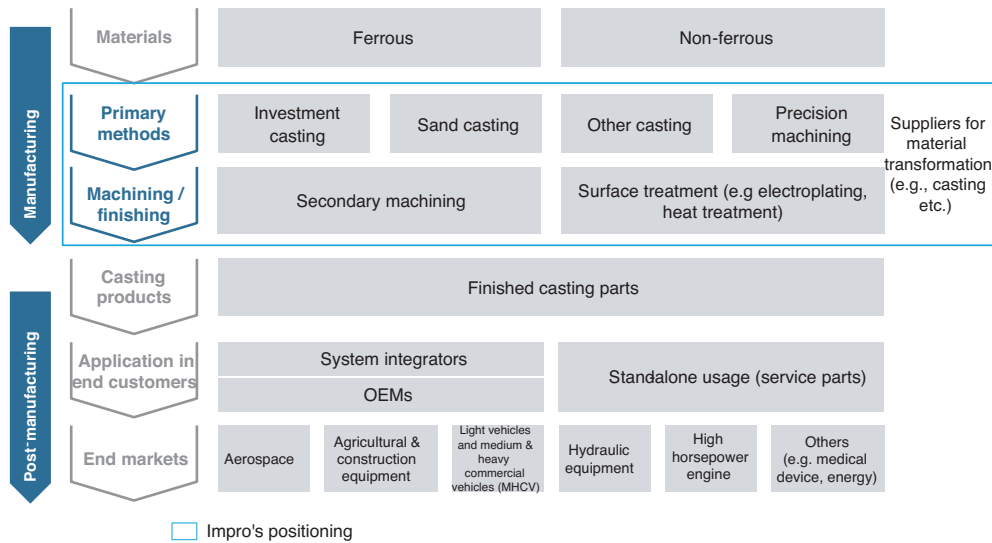
Casting is one of the major methods in metal shaping and transformation. Casting is a process by which molten metal is poured into a mold, which contains a hollow cavity of the desired shape, and then allowed to solidify. The solidified part is then broken out of the mold to complete the process. There are a number of casting methods producing products with varying levels of volume, size, weight and precision. Investment casting is primarily used to produce highly precise and complex products with high surface quality. Sand casting is a relatively more versatile, cost-effective and efficient casting method but with low product accuracy and undesirable surface finish.

End-market customers have been increasingly looking for efficient and cost-effective one-stop suppliers, which have the scale and capability to provide integrated services. For high-end and mission-critical complex parts, secondary machining, post-casting treatment and surface treatment are often required.

Precision components are commonly supplied to OEM customers and system integrators. Finished parts are used in diverse end-markets, including passenger cars, commercial vehicles, high-horsepower engines, hydraulic equipment, energy, aerospace, medical, construction and agricultural equipment sectors.

INDUSTRY OVERVIEW

The diagram below illustrates the supply value chain and end-markets of precision component products:



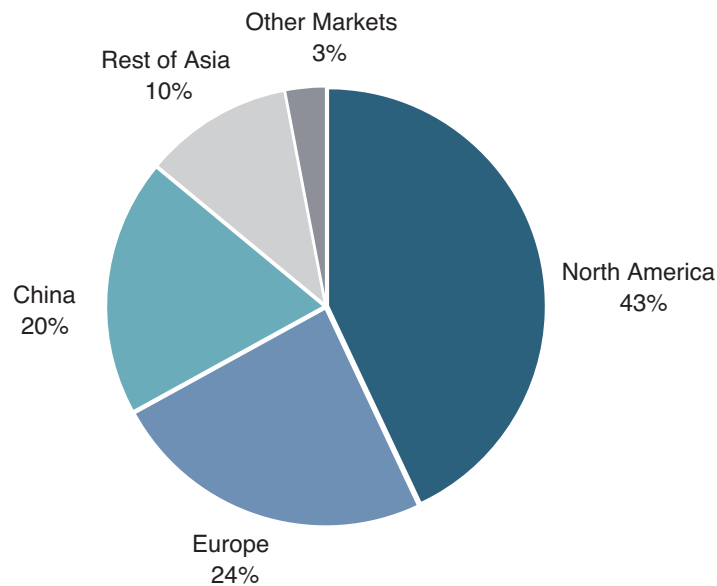
INVESTMENT CASTING

Investment casting is one of the most sophisticated casting processes, which can support optimum shaping that is unmatched by any other casting methods. Investment casting enables production of complex shapes whilst still maintaining high dimensional accuracy and high surface quality. Investment casting can be used to cast almost any metal. Hence, investment casting products are widely used in diverse end-markets requiring mission-critical components, such as aerospace, defense, medical, automotive, agriculture machinery, construction machinery, hydraulic equipment and others.

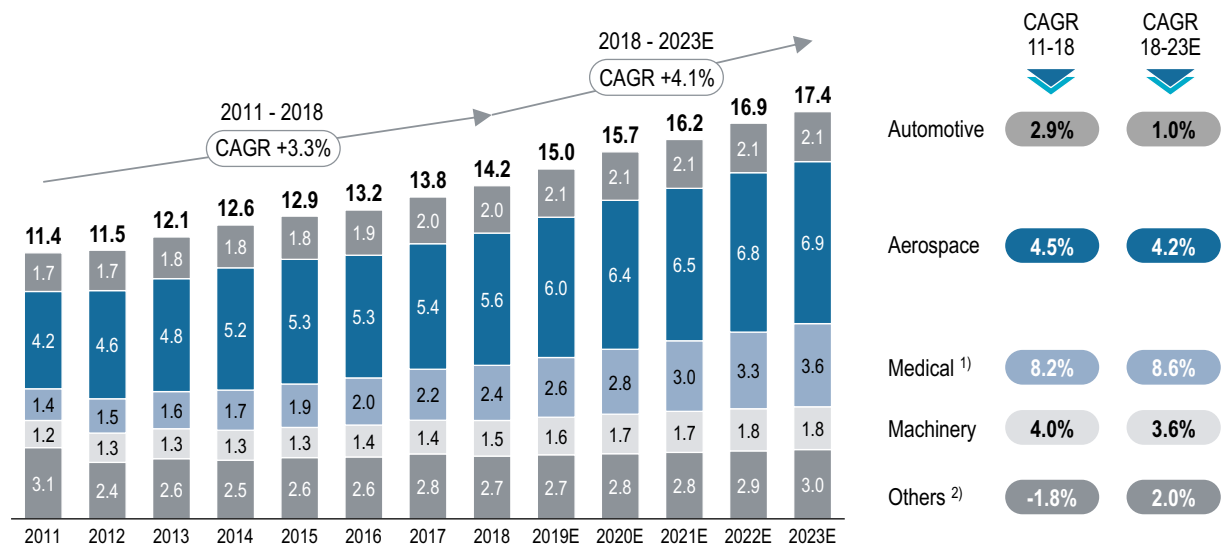
According to the Roland Berger Report, total global sales for the investment casting market increased from US\$11.4 billion in 2011 to US\$14.2 billion in 2018, representing a CAGR of 3.3%. North America and Europe, which mainly focus on high value-added products for industries such as aerospace, military and medical, remained the largest regional markets which outgrew other markets. On the other hand, China dominated Asian markets, contributing over 60% of total market share in Asia in 2018 which was mainly driven by its growing aerospace and automotive sectors. While China's high value-added application segment only accounted for 13% of total market share in China's investment casting market in 2017, it is expected to further grow along with the increasing needs from home-developed commercial airplanes.

INDUSTRY OVERVIEW

The following diagram illustrates the 2018 global investment casting market by region, in terms of sales:



The following diagram illustrates the global investment casting market, in US\$ billions, in terms of sales by application industries between 2011 and 2018 and the market forecast until 2023.



Notes:

- (1) Including medical devices and orthopedic implants.
- (2) Including MHCV, industrial gas turbine, defense, etc.

INDUSTRY OVERVIEW

Market Trends

Market Trends of Global Investment Casting Industry

High quality one-stop solution providers which are able to provide subsequent machining and surface treatment processes, along with additional ancillary services, such as tooling design and manufacturing and after-market services, are expected to gain more market share as OEM customers have been streamlining their investment casting supply chain, in order to achieve quick delivery, lower prices, better collaboration and quality consistency. To this end, according to the Roland Berger Report, the share of finished investment casting products delivered in automotive market increased about 50% from 2013 to 2018. This trend is expected to continue in the future and other investment casting application industries as well. Investment casting suppliers based in Asia are expected to benefit in particular from the future outsourcing trend to Asia of global OEM customers.

According to the Roland Berger Report, the global investment casting market is projected to grow at a CAGR of 4.1% from US\$14.2 billion in 2018 to US\$17.4 billion in 2023. Among others, medical segment is expected to be the strongest growth driver and aerospace is expected to be the biggest revenue contributor.

Major End Market Trends

Automotive

Investment casting is widely used to produce components and parts with complex structure or certain special technical properties in automotive market, including light and commercial ICE vehicles, new energy vehicles, or NEVs, and others. Typical investment casting products for automotive market include fuel system parts, turbo chargers, EGR parts, driver gears, slewing gears, rotor end rings, rotor bars, etc.

According to the Roland Berger Report, the global automotive market in terms of sales volume increased at a CAGR of 3.2% from 79 million units in 2011 to 99 million units in 2018 and will continue to grow steadily at a CAGR of 2.0% to 109 million units in 2023. In particular, global market size of premium and luxury vehicles in terms of sales volume is also expected to grow at a CAGR of 3.8% from 2018 to 2023, outgrowing the overall global automotive market driven by continuing consumption upgrade. This presents more opportunities for premium and complex investment casting parts.

Turbochargers, fuel injection systems and EGRs, which typically use investment casting components, are expected to increase significantly, especially stimulated by the stricter emission control policies globally. In addition, investment casting can significantly reduce the number of parts and weight, effectively fulfilling the growing needs of light weight for both internal combustion engine vehicles and NEVs. Development of NEVs in the long run may lead to a reduction in demand for internal combustion engines, or ICEs. But in the short term, the adverse impact is limited. Meanwhile, NEVs also present opportunities for well-established suppliers as automotive OEMs require new products and components where investment casting process could well apply.

INDUSTRY OVERVIEW

Similarly, ICE powertrain optimization is a main focus of short-term fuel-efficiency improvements by OEMs primarily due to the increasing environmental concerns, which is expected to further stimulate the adoption of turbocharger and fuel injection systems using investment casting parts.

According to the Roland Berger Report, global investment casting sales in automotive market grew at a CAGR of 2.9% from US\$1.7 billion in 2011 to US\$2.0 billion in 2018 and is expected to continue to increase at a CAGR of 1.0% from 2018 to US\$2.1 billion in 2023.

Aerospace

There are a large number of components and systems involving investment casting technology in the aerospace industry, for example, engines, wing and body parts, flight control systems, air conditioning systems, brake systems, auxiliary systems and hydraulic systems, landing control systems and auxiliary power units. The global aerospace market achieved a CAGR of 3.8% from US\$146 billion in 2011 to US\$190 billion in 2018, and is projected to continue to grow to US\$224 billion in 2023, representing a CAGR of 3.3% from 2018 to 2023, mainly driven by increasing air travel demand worldwide, supporting further growth of aircraft production.

Global investment casting sales in aerospace grew at a CAGR of 4.5% from US\$4.2 billion in 2011 to US\$5.6 billion in 2018, a growth rate slightly higher than global aircraft production due to a wider application of investment casting in aircraft production. In 2018, the investment casting sales in the aerospace sector, accounted for around 40% of the overall investment casting market.

In the future, investment casting demand in the aerospace sector is expected to grow at a CAGR of 4.2% from 2018 to 2023, reaching US\$6.9 billion in 2023, which is mainly driven by global aircraft production growth and slightly wider applications of investment casting in aircraft production to cope with the increasing light weight demand. In addition, since global aircraft OEMs, such as Airbus and Boeing, are transferring some manufacturing processes and suppliers to Asia, in particular, China. Although the trade war between the United States and China may result in temporary outflow of aircraft production from China, China may further strengthen its position in the European market and develop its technology expertise on the platform of its self-developed commercial aircraft. As such, independent investment casting suppliers based in Asia with deep understanding of Asian market will be expected to benefit from this trend.

Medical

Investment casting is used in manufacturing complex components of medical equipment and devices, such as therapeutic devices and diagnostic devices, as well as orthopedic implants. The global medical device market achieved a CAGR of 3.8% from US\$324 billion in 2011 to US\$421 billion in 2018, and is projected to continue to grow to US\$552 billion in 2023, representing a CAGR of 5.6% from 2018 to 2023. The global orthopedic implants markets, on the other hand, achieved a CAGR of 6.7% from US\$34 billion in 2011 to US\$54 billion in 2018,

INDUSTRY OVERVIEW

and is estimated to continue to grow at a CAGR of 6.8% to US\$75 billion in 2023. These are, primarily driven by increasing aging population, more complex diseases and more minimally-invasive surgery, growing health awareness, and more investment in healthcare infrastructure.

The rising demand for minimally invasive surgical procedures as well as medical equipment for disabilities open up opportunities for a higher investment casting penetration rate in surgical equipment and mechanical lift. As a result, global investment casting sales in medical increased at a CAGR of 8.2% from US\$1.4 billion in 2011 to US\$2.4 billion in 2018, and is expected to further grow to US\$3.6 billion in 2023, representing a CAGR of 8.6%. In addition, 3D printing is currently expected to have limited impact on medical market mainly due to immature integration with new materials and strict legal restrictions.

Machinery

The global machinery market, including agricultural and construction machinery, recently experienced a recovery growth from US\$301 billion in 2011 to US\$348 billion in 2018 with a CAGR of 2.1%. It is estimated to grow at a CAGR of 2.0% from US\$348 billion in 2018 to US\$384 billion in 2023, mainly benefiting from the recovery in the global macro economy, increasing urbanization which stimulates agricultural mechanization and city construction demand, growing government investment, and technological advancement.

The applications of investment casting include engine systems, transmission systems, and hydraulic systems. Global investment casting sales in machinery increased at a CAGR of 4.0% from US\$1.2 billion in 2011 to US\$1.5 billion in 2018. It is expected to further grow at a CAGR of 3.6% to US\$1.8 billion in 2023, attributable to the continuing trend of replacing forging and welding components with investment casting, especially in transmission systems and hydraulic systems.

Barriers-to-Entry and Competitive Landscape

The investment casting industry has high barriers-to-entry. Establishing an investment casting business requires substantial start-up costs for advanced production equipment, skilled workforce, high technological capabilities, as well as strong casting and advanced metallurgical process know-how. In addition, customers in certain end-markets, such as aerospace and medical industries, often require their suppliers to obtain industry-specific certifications. For instance, AS9100 and NADCAP, each a widely adopted and standardized quality management system for aerospace manufacturing, are key pre-requisite for leading aerospace companies such as Boeing and Airbus when selecting their suppliers. Lengthy certification process which takes at least a whole year and strict quality and safety requirements lead to high entry barrier in aerospace industry. ISO 13485, a certification for medical device quality management system, is a key pre-requisite certification for medical industry and is extremely valued by certain global leading medical equipment and device companies, such as GE Healthcare and Stryker.

INDUSTRY OVERVIEW

These certification and qualification procedures are stringent as well as time-consuming and costly to both suppliers and customers. Given significant investment in dies and tooling as well as supplier qualification process, it is generally not economical for customers to spread their business across many suppliers. Due to the necessity to obtain mission-critical components on a consistent and reliable basis, customers generally prefer to work with a limited number of reliable and reputable suppliers with a certain scale and proven track record. Customers typically are included to work with the chosen investment casting suppliers for a long period of time. More and more customers are inclined to engage high quality suppliers with one-stop solutions and integration capabilities in order to save costs and optimize supply chain management.

As a result of these high industry barriers, leading players with scale and reputation generally have a strong competitive advantage to retain and attract new customers. According to the Roland Berger Report, we ranked 7th among global independent investment casting manufacturers (meaning those companies mainly providing casting products to numerous independent third party clients to generate independent revenues, instead of mainly providing casting products to their parent company or group companies) in terms of total revenue in 2018, and were the only such company in the top ten based in China. The table below shows the ten largest investment casting manufacturers globally by total revenue in 2018.

| Ranking | Company | Headquarters | Total Revenue in 2018 ⁽⁵⁾⁽⁶⁾ |
|----------|-----------------------------|----------------|---|
| 1 | Arconic | United States | US\$14,014 million |
| 2 | PCC | United States | US\$11,823 million |
| 3 | HITACHI ⁽¹⁾ | Japan | US\$9,364 million |
| 4 | KSB ⁽¹⁾ | Germany | US\$2,575 million |
| 5 | Doncasters ⁽²⁾ | United Kingdom | US\$710 million |
| 6 | CPP ⁽³⁾ | United States | US\$696 million |
| 7 | Kitagawa | Japan | US\$549 million |
| 8 | Zollern ⁽²⁾ | Germany | US\$527 million |
| 9 | Impro ⁽⁴⁾ | China | US\$478 million |
| 10 | Hitchiner | United States | US\$255 million |

Notes:

- (1) Not an independent player. Independent players refer to those companies mainly providing casting products to numerous independent third party clients to generate independent revenues, instead of mainly providing casting products to their parent company or group companies.
- (2) Represents total global revenue in 2017 of the relevant company. Total global revenue in 2018 of the relevant company is currently not available.
- (3) In 2018, CPP acquired Selmet, which is a titanium casting manufacturer for aerospace with a revenue of approximately US\$135 million.
- (4) If only independent players are considered, Impro ranked 7th globally.
- (5) Information quoted from annual reports of public companies and from desktop researches by Roland Berger for private companies.
- (6) Represents total global revenue in 2018 of the relevant company, which includes revenue from investment casting and other business segments, if applicable. It is also not meaningful to present market share of each company in investment casting segment since total global revenue is referred to.

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Furthermore, according to the Roland Berger Report, although there are over 26,000 foundries in China by 2017, most of these players in China cannot supply globally to major industries and/or provide one-stop solutions across the supply value chain. According to the Roland Berger Report, we were the largest investment casting manufacturer in China in terms of total revenue in 2018. The table below shows the ten largest investment casting manufacturers in China by total revenue in 2018.

| Ranking | Company | One-stop Solution Provider | Total Revenue in 2018 ⁽²⁾⁽³⁾ |
|---------|---|----------------------------|---|
| 1 | Impro | Yes | US\$478 million |
| 2 | Xinjiang Machinery Research (新研股份) ⁽¹⁾ | No | US\$284 million |
| 3 | Anhui Yingliu (安徽應流) | No | US\$253 million |
| 4 | Cisri-gaona (鋼研高納) | No | US\$135 million |
| 5 | Giayoung Precision Metal (嘉揚精密金屬) | Yes | US\$60 million |
| 6 | GINHO (山東永和精工製造) | No | US\$53 million |
| 7 | Dalian Hayashi (大連 (林) 精密鑄造) | Yes | US\$45 million |
| 8 | LIBO (立博) | No | US\$36 million |
| 9 | Taizhou Xinyu (泰州鑫宇) | No | US\$30 million |
| 10 | Suvast (江蘇永瀚) | No | US\$26 million |

Notes:

- (1) Not an independent player.
- (2) Information quoted from annual reports of public companies and from desktop researches by Roland Berger for private companies.
- (3) Represents total global revenue in 2018 of the relevant company, which includes revenue from investment casting and other business segments, if applicable. It is also not meaningful to present market share of each company in investment casting segment since total global revenue is referred to.

PRECISION MACHINING

Precision machining is a process to produce accurate components with high tolerances and excellent surface quality by removing materials from a workpiece, and involves a combination of turning, drilling, gear cutting, honing and/or grinding processes. Heat treatment, a special process which may be deployed during precision machining for special needs, also involves carburizing, quenching and tempering. Precision machining often requires the programming of computer numerical controls, or CNC, which allows for converting special designs into exact shapes through multiple dimensions. Precision machining manufacturers produce complex parts and complete assemblies for finished goods across diverse end-markets, mainly including aerospace, medical, automotive, consumer electronics and others.

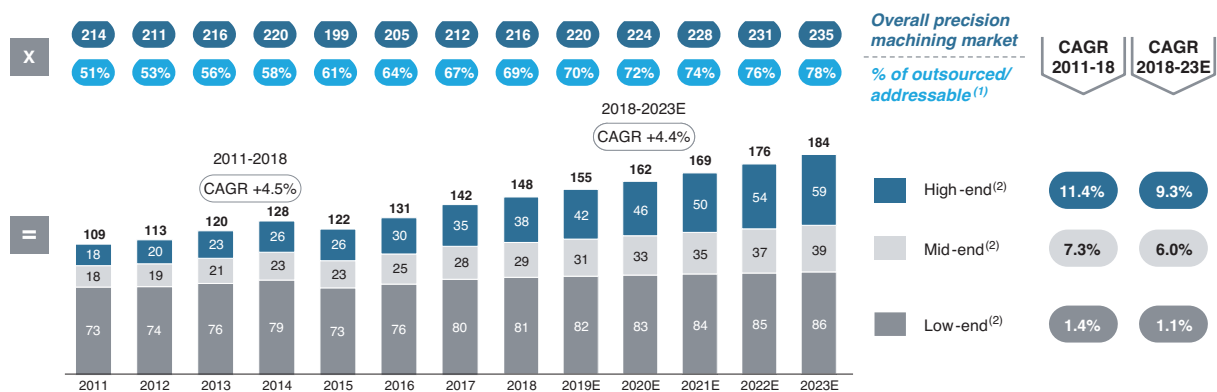
According to the Roland Berger Report, the global precision machining market increased at a CAGR of 0.2% from US\$214 billion in 2011 to US\$216 billion in 2018. China's market size accounts for approximately 26% of total sales in 2018, increased by a CAGR of 7.5% from 2011 to 2018, mainly as a combined result of (i) the general macro economy growth, (ii) the increasingly significant machine tool investment to support the upgrading and transformation

INDUSTRY OVERVIEW

trends in manufacturing industry in China, and (iii) the using habit in China that Chinese manufacturers tend to purchase new machine tools while the overall life cycle of machine tools in China is generally shorter than that in developed countries. Machine tools represent the major downstream application under industrial machinery industry. North America and Europe markets, which accounted for approximately 25% and 31% of the global precision machining market, respectively, remained the largest regional markets due to the higher proportion of high value-added products.

Precision machining market can be roughly divided into three segments based on the machine tool values. High end segmentation refers to machine equipment valued over EUR500,000, which are mainly high precision machining centers with full process coverage, high level of automation and high speed and reliability, and are able to manufacture different products. Middle end segmentation refers to machine equipment valued at EUR250,000 to EUR500,000, which are mainly general automated machining centers with a wide range of process and product coverages. Low end segmentation refers to machine equipment valued below EUR250,000, which are mainly single spindle machines for single process. Due to the strong demands from end markets for high precision parts and components, high end equipment with full process coverage becomes more and more critical.

Outsourcing has become more common in precision machining market, in particular in high end segmentation, and is expected to continue. The chart below illustrates the global addressable outsourced precision machining market size (representing the total precision machining market size in the relevant year multiplied by the percentage of outsourced market size in such year), in US\$ billions, by independent precision machining suppliers in terms of machine tool segment between 2011 and 2018 and market forecast until 2023.



Notes:

- (1) Addressable precision machining market refers to outsourced market that can be addressed by independent precision machining suppliers.
- (2) High-end: produced by machine tools of value over EUR500,000; mid-end: produced by machine tools of value between EUR250,000 to EUR500,000; low-end: produced by machine tools of value lower than EUR250,000.

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Market Trends

- Outsourcing becomes more common, in particular in high end segmentation. With independent precision machining market players gaining more market share as the intention for smooth management, cost saving, and avoidance of large investment in equipment and high technical barriers, OEMs and tier one suppliers are increasingly outsourcing precision machining to suppliers, in particular, to independent suppliers.
- Independent one-stop solution providers with higher level of automation, digitalization, stronger capability in connection with research and development, advanced equipment, capital and expertise are expected to gain more market share due to an increasing market demand for high-end products.
- Demands for integrated precision machining parts for the application in fuel injection systems and hydraulic equipment are considered to have further potential for growth.

Barriers-to-Entry and Competitive Landscape

The global precision machining market is highly fragmented and dominated by regional small and medium enterprises. Most of the players are only able to achieve annual revenue below US\$10 million, and they normally focus on certain end-markets and/or product segments.

In addition to skilled labor force and strong technical capabilities, substantial upfront investment in high-end machinery and equipment, including CNCs, with high precision, vibration resilience to ensure production quality and efficiency constitute a significant barrier-to-entry in precision machining industry. In addition, the ability to maintain high level of automation and digitalization across the production processes, as well as the integrated technical capabilities to offer a wide range of product portfolio are critical to compete in this industry. Finally, established and reputable customer relationship with specific certifications as required by customers in certain specific areas also play an important role in acquiring new and maintaining existing customers.

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According to the Roland Berger Report, leveraging our advanced equipment and techniques and our ability to offer one-stop solutions, we ranked as the 4th largest precision machining company globally in terms of total revenue in 2018. The chart below illustrates the ten largest global market players in selected end markets of automotive, aerospace and hydraulic markets in terms of total revenue in 2018 according to the Roland Berger Report.

| Ranking | Company ⁽¹⁾ | Headquarters | Total Revenue in 2018 ⁽⁶⁾⁽⁷⁾ |
|---------|-----------------------------|---------------|---|
| 1 | KERN-LIEBERS ⁽²⁾ | Germany | US\$880 million |
| 2 | NN Inc ⁽³⁾ | United States | US\$771 million |
| 3 | Hengli ⁽⁴⁾ | China | US\$638 million |
| 4 | Impro | China | US\$478 million |
| 5 | Berger | Germany | US\$311 million |
| 6 | Paradigm ⁽⁵⁾ | United States | US\$227 million |
| 7 | Häring ⁽⁵⁾ | Germany | US\$224 million |
| 8 | Burgmaier | Germany | US\$152 million |
| 9 | Brovedani | Italy | US\$142 million |
| 10 | IPE Group | China | US\$120 million |

Notes:

- (1) Only players in the same competing industries (automotive, aerospace and hydraulics market) have been selected as precision machining is a highly downstream application focused business.
- (2) In 2018, KERN-LIEBERS acquired Schnöring GmbH, which is a spring manufacturer with a revenue of approximately US\$15 million.
- (3) In 2018, NN Inc acquired Paragon Medical and Bridgemedica, which operate in the medical device field and had revenue of approximately US\$190 million and approximately US\$9 million, respectively.
- (4) Over 80% of Hengli's sales come from integrated equipment such as hydraulic cylinder.
- (5) Represents total global revenue in 2017 of the relevant company. Total global revenue in 2018 of the relevant company is currently not available.
- (6) Information quoted from annual reports of public companies and from desktop researches by Roland Berger for private companies.
- (7) Represents total global revenue in 2018 of the relevant company, which includes revenue from precision machining and other business segments, if applicable. It is also not meaningful to present market share of each company in precision machining segment since total global revenue is referred to.

SAND CASTING

Overview of Global Sand Casting Industry

Sand casting is a metal forming process characterized by the use of sand as the mold material and can process a number of metals and alloys, including iron, special alloy steel, titanium alloy and others. Sand casting has a wide range of applications in various areas. Sand casting is a cost-effective and efficient technology, the process of which is generally flexible with regards to size and the change of geometry design. However, sand casting is lower in product accuracy and rougher in surface finishing than investment casting. As a result, extra efforts in secondary machining process are usually needed to improve the product accuracy. In addition, environmental concerns around sand casting are common as the processes usually involve generation of pollutants, dust, particles and emission of poisonous gases.

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Sand casting may be used in a variety of downstream application industries, with automotive accounting for over 40% market share in 2018. Other application industries include industrial machinery, infrastructure and construction machinery and other segments, such as aerospace and medical. Comparing with complex high-performance sand casting as discussed below, general industrial sand casting focuses on a relatively narrow range of sizes that involve high-volume production with low-to-medium level of complexity. General industrial sand casting utilizes normal grey iron and ductile iron. The typical components include structural parts for automotive.

Sand casting is a large market and has experienced a rapid growth in recent years, accounting for approximately 80% of the global casting market in volume terms (i.e. approximately 90 million metric tons per year). According to the Roland Berger Report, the total global market size of sand casting was approximately US\$274 billion in 2018, representing a CAGR of 5.1% from US\$193 billion in 2011. Its vast market size and increase were largely attributable to robust growth in the automotive industry, which is the largest downstream application industry of sand casting. Over 65% of the global sand casting market was contributed by production in Asia-Pacific countries. The continuous booming of the regional economies in such areas, associated with increasing demand for automotive, industrial machinery, and other various downstream industries, has been, and is expected to continue to, further drive the growth of the global sand casting market.

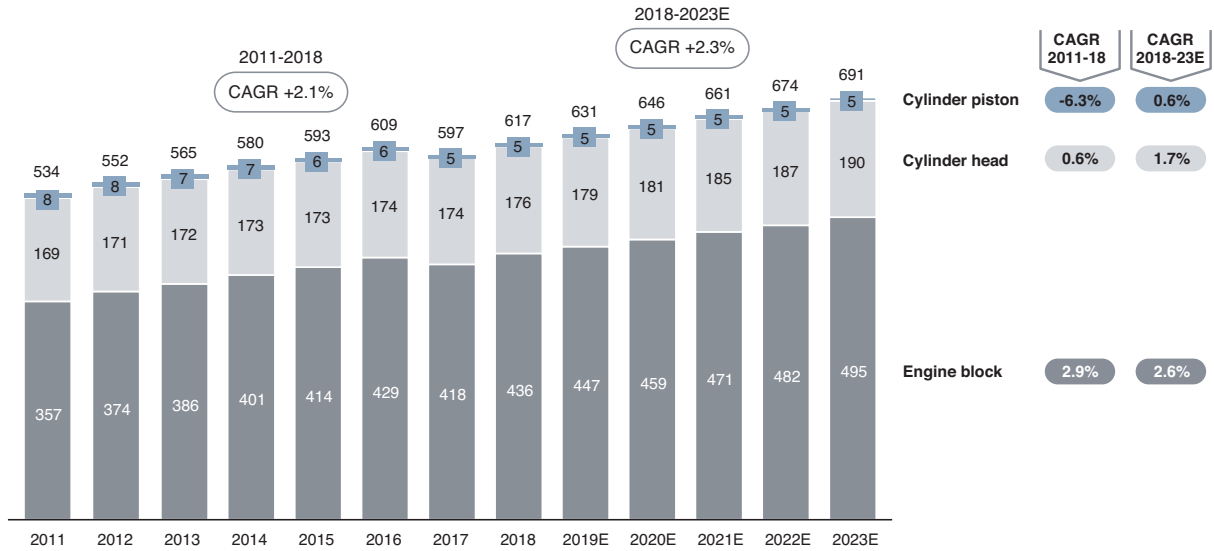
Complex High Performance Iron Sand Casting

Downstream application areas of sand casting are quite segmented in various industries. According to the Roland Berger Report, high value-added sand casting products, such as gearbox shell used in automotive industry, gas and water turbines used in energy industry, and high horsepower engines used in industrial, railway, marine and construction industries, account for only approximately 10% out of total sand casting market size. Among others, high horsepower engines used in industrial, railway, marine and construction industries are referred to as complex high performance iron sand casting market, which represents less than 1% out of total sand casting market size.

Complex high performance iron sand casting enables production of a wider range of sizes with higher precision, product customization, complexity, durability and temperature tolerance. Relevant products include engine blocks weighing between 500 kilograms and 12 tones as well as cast iron cylinder heads and pistons for high horsepower engines with power ranging from 1 to 5 megawatts. These high horsepower engines can be used across a number of end markets, such as industrial machinery, marine and railway transport and construction machinery. Such high value-added sand casting products, featured with higher level of complexity and better accuracy in product finishing, generally have higher margins. According to the Roland Berger Report, the growth of the high value-added complex high performance iron sand casting market is primarily driven by the intensified demands from expanding underlying industries.

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The chart below illustrates the global market size of the complex high performance iron sand casting market, in US\$ millions, between 2011 and 2018 and the market forecast until 2023.



Market Trends

- Global sand casting is expected to continue to grow, driven by the continuous economic growth in Asia-Pacific countries and increasing demand from underlying automotive and industrial machinery industries.
- In order to maintain higher margins, meet increasingly stringent client requirements and avoid threats from substitute products, foundries are entering high-end markets and upgrading their technologies to develop high precision casting products with better product finish.
- More advanced technologies are developed and adopted to increase the level of automation and to make the sand casting processes more eco-friendly.
- Sand casting manufacturers have been establishing one-stop solution value chain to offer precision machining and surface treatment services. Currently, less than 20% foundries worldwide have such integrated capabilities.
- Complex high performance iron sand casting market is expected to further grow due to increasing demand from growing underlying high-end markets, such as demand for high horsepower engines from industries like railway, marine, construction and power generation.

INDUSTRY OVERVIEW

Competitive Landscape and Barriers-to-Entry for Complex High Performance Iron Sand Casting Market

Entry barriers for the complex high performance iron sand casting market are relatively high. Advanced development capability to fulfill the customers' requirements in relation to technological crafting, product accuracy, and engine block simulation competence constitute a major barrier-to-entry. Accordingly, meeting various qualification and certification requirements which are generally costly and time consuming due to the critical nature of downstream engine-related applications, and possessing strong downstream industry know-how as to engine block simulation competence and metallurgical expertise are also expected to build up competitive advantages. In addition, due to the mission-critical nature of the components manufactured, the market is also characterized by strong long-standing and stable cooperative relationships between major customers and only a few qualified suppliers. Finally, significant upfront investment in technologies, human resources and high-end equipment for complex but flexible manufacturing can be challenging.

Competitive intensity for the overall sand casting is generally high. However, the complex high performance iron sand casting market is quite concentrated, dominated by a few top players. In particular, according to the Roland Berger Report, there are only about less than 5% of over 20,000 iron sand casting foundries in China that are able to meet the critical product demands and deliver complex high performance iron sand casting products. It is expected that more existing mid-end market players are eyeing on entering into this niche market offering higher margins.

According to Roland Berger, only a few top global players are identifiable in this niche market. According to the Roland Berger Report, we ranked 5th among all complex high performance iron sand casting market players in the world in terms of segment revenue in 2018. We were also one of the one-stop solution providers with a focus on the high-end market. The table below shows the top seven global players in complex high performance iron sand casting segment by segment revenue in 2018.

| Ranking | Company | Headquarters | Segment Revenue in 2018 ⁽³⁾ | Market Share ⁽⁴⁾ |
|----------|-------------------------|--------------|--|-----------------------------|
| 1 | Fritz Winter | Germany | US\$732 million | 0.267% |
| 2 | Gienanth ⁽¹⁾ | Germany | US\$189 million | 0.069% |
| 3 | KOCEL | China | US\$183 million | 0.067% |
| 4 | Heger ⁽²⁾ | Germany | US\$84 million | 0.031% |
| 5 | Impro | China | US\$77 million | 0.028% |
| 6 | Ashok | India | US\$65 million | 0.024% |
| 7 | Push | China | US\$35 million | 0.013% |

Notes:

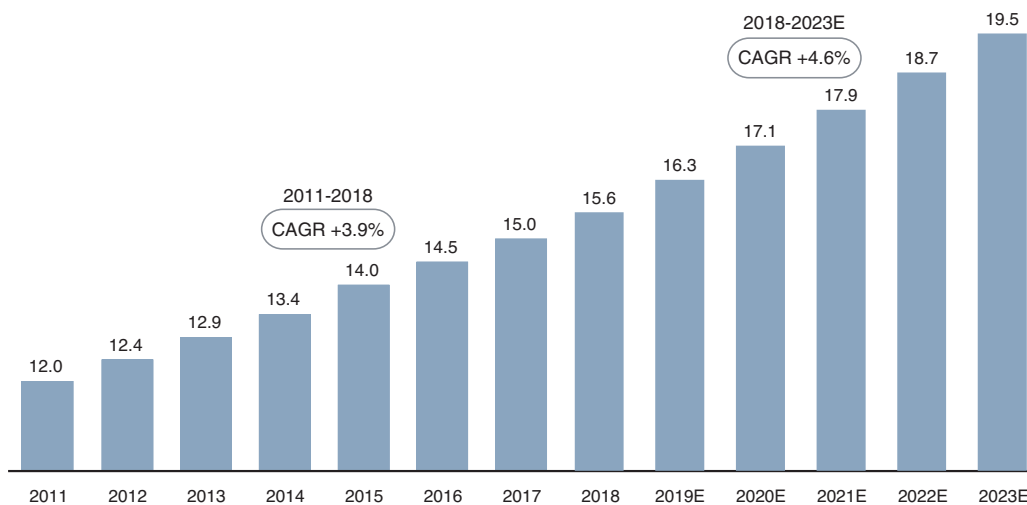
- (1) In 2018, Gienanth acquired SLR Austria, which is an iron casting foundry group with a revenue of approximately US\$50 million.
- (2) Represents segment revenue in 2017 of the relevant company. Segment revenue in 2018 of the relevant company is currently not available.
- (3) Information from desktop researches by Roland Berger.
- (4) Based on total global sales of sand casting market in 2018 of US\$274 billion.

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SURFACE TREATMENT

Surface treatment generally refers to a process to alter the surface of an object for the purpose of enhancing its appearance or functional properties. For the purpose of this prospectus, surface treatment refers to electroplating, which is one of the most widely-used surface treatment techniques that provide wide coverage of coating metals and high cost-efficiency. Commonly used materials in electroplating include zinc, nickel, copper, chromium and steel is the most common substrate metal. Electroplating surface treatment is typically a value-added service provided by suppliers to their customers purchasing components from them, which have a wide coverage of downstream applications, including automotive, electronics, aerospace, energy, medical and general machinery. General machinery and electronics industries are the two major applications, with an aggregate of approximately 70% to 85% of total market share by revenue contribution.

According to the Roland Berger Report, the global electroplating market had increased from US\$12.0 billion in 2011 to US\$15.6 billion in 2018, representing a CAGR of 3.9%, primarily driven by the robust expansion of the telecommunication industry and the rising demand for electronic devices. The chart below illustrates the market size of global electroplating market between, in US\$ billions, 2011 and 2018 and the market forecast until 2023.



Due to increasingly stringent environmental regulations, the number of electroplating companies in China had decreased by 40% from approximately 20,000 in 2010 to 12,000 in 2018, while the total electroplating market size in China increased at a CAGR of 4.2% from US\$3.6 billion to US\$4.9 billion from 2011 to 2018.

Market Trends

- Outsourcing to specialized electroplating surface treatment service providers in developing countries is trending up due to environmental concerns and more stringent regulations in European countries. Established market players located in emerging countries are expected to benefit from this trend.

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- More strict regulations regarding site selection will enhance difficulty of obtaining approvals and limit the new entrants. Thus, the reputable market players who own advanced technologies and required certifications may dominate the industry.
- Currently, industry players are on the trail of adopting eco-friendly chromium free chemicals and improving production automation due to the harmful effects of hexavalent chromium.
- Demand for electroplating will continue to grow driven by downstream demand, in particular electric vehicles and electronics.

Barriers-to-Entry and Competitive Landscape

Key barriers-to-entry for the electroplating industry include government approvals and certificates, advanced production techniques and environmental regulatory issues. In addition, established customer relationship also constitutes a significant entry barrier as large overseas customers are inclined to work with reputable electroplating companies who have passed stringent environmental compliance standards. These trends benefit large well-run, environmentally-compliant electroplating companies, enabling them to grow market share in an increasingly consolidated industry.

According to the Roland Berger Report, the electroplating industry is highly fragmented and mainly composed of small local players in Europe and North America. For instance, the biggest U.S. player has approximately 850 full time employees and US\$65.7 million sales revenues in 2016, while in Germany, the typical number of employees in electroplating companies is between 10 to 80. Given that participants in this industry are mainly regional players serving local customers, global ranking of market participants is not meaningful. According to the Roland Berger Report, we were the 3rd largest electroplating market player in China in terms of segment revenue in 2018. In addition, we have the broadest certification coverage and metal coverage compared with other electroplating players in China. The table below shows the top ten electroplating players in China by segment revenue in 2018.

| Ranking | Company | Segment Revenue in 2018 ⁽¹⁾ | Market Share in China ⁽²⁾ |
|----------|---|--|--------------------------------------|
| 1 | Suzhou Huating (蘇州市華婷) | Approximately US\$75.6 million | 1.54% |
| 2 | Kunshan Tongxin (昆山同心) | Approximately US\$45.4 million | 0.93% |
| 3 | Impro | Approximately US\$44.8 million | 0.91% |
| 4 | Hangzhou Laiyuan (杭州萊源) | Approximately US\$42.3 million | 0.86% |
| 5 | Kunshan Shiguan (昆山世冠) | Approximately US\$33.3 million | 0.68% |
| 6 | Shanghai Penglei (上海鵬雷) | Approximately US\$30.2 million | 0.62% |
| 7 | Zhuhai Masite (珠海瑪斯特) | Approximately US\$29.8 million | 0.61% |
| 8 | Nantong Hengrui Plating | Approximately US\$25.7 million | 0.52% |
| 9 | Wuxi Dingya Electronic Parts (無錫鼎亞電子材料) | Approximately US\$15.1 million | 0.31% |
| 10 | Changzhou Junhe | Approximately US\$11.3 million | 0.23% |

Notes:

(1) Information from desktop researches by Roland Berger for private companies.

(2) Based on total global sales of electroplating market in China in 2018 of US\$4.9 billion.

INDUSTRY OVERVIEW

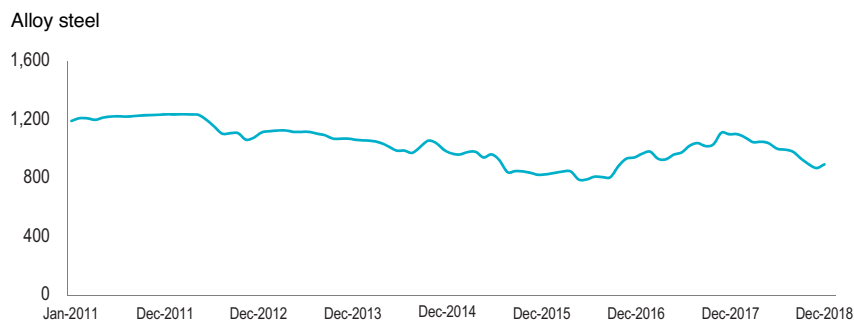
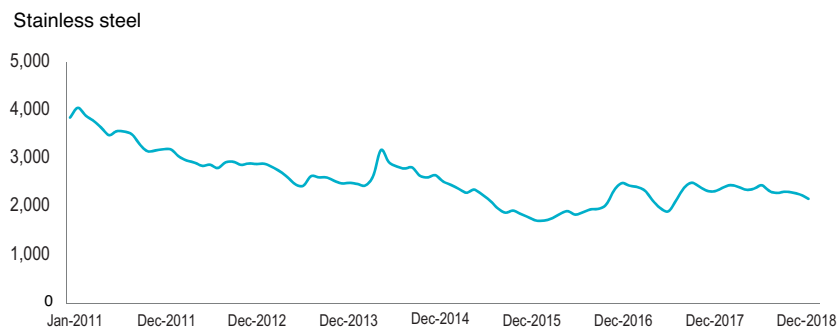
PRICES OF MAJOR METALS USED IN PRECISION COMPONENT INDUSTRY

Stainless steel, alloy steel and iron are the major raw materials for precision component manufacturing. The prices of different types of stainless steel, alloy steel and iron fluctuate and are largely decided by production cost (for example, the iron and coal cost), and impacted by the short-term downstream demand fluctuations, public policies and other factors.

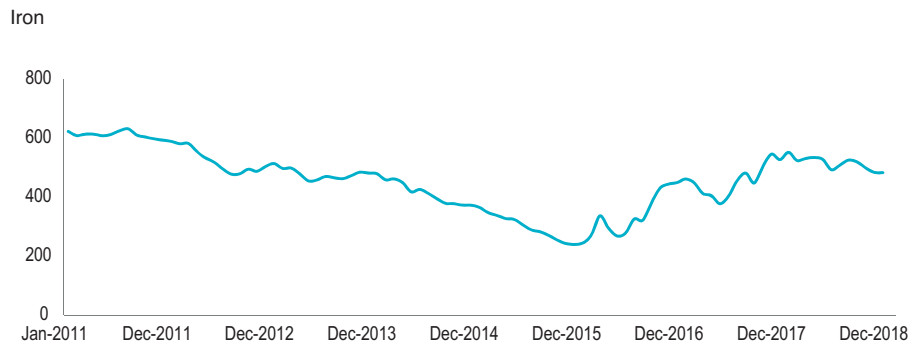
Almost all of our major raw materials used by plants in the PRC are sourced locally from Chinese suppliers.

The prices of such major raw materials have recovered since 2016 from a four-year downturn, primarily due to the implementation of policies controlling over capacity and more stringent environmental requirements. Further deepened implementation of such policies also resulted in an overall price increase during 2018, except that the price of alloy steel in Chinese market declined in 2018 due to the slower demand from major end markets including real estate and automotive. The prices are expected to achieve a slight growth based on the current price level in the next two years, mainly driven by the continuing capacity reduction and environmental protection policies, with a potential short-term fluctuation because of the other market impacts, such as a short-term production adjustment by leading companies. The historical and future price trends of such raw materials in Germany are generally consistent with those in China. The charts below illustrate the historical price trends of stainless steel, alloy steel and iron in Chinese market in the periods indicated.

Historical monthly price trends of main raw materials in Chinese market (USD/ton)

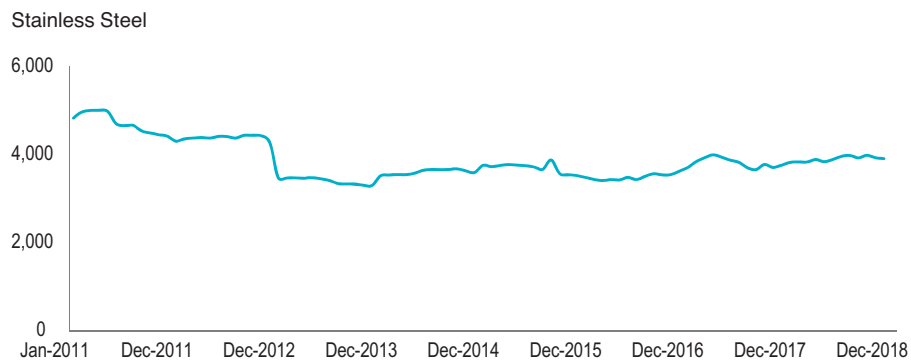


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The main raw material we use in our plants in Germany and Turkey is stainless steel and is sourced from suppliers in Germany. As the historical price of the type of stainless steel that we source from Germany for our plants in Germany and Turkey is not readily available from any trustworthy open source, the following chart which illustrates the historical price trends of stainless steel in German market is compiled on the basis of our purchases in the period indicated.

Historical monthly price trend of stainless steel in German market (EUR/ton)



OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

The name of “Impro” is derived from “*IMpeller*” and “*PROpeller*” which are the two earliest propulsion components manufactured by Wuxi Viking at the inception of business. The name also embraces our core business values — the constant strive for “*IMprovement* and *PROfessionalism*”, while “鷹” (eagle) in our Chinese name symbolises excellence, strength, decisiveness, courage, astuteness, and perseverance.

OVERVIEW OF OUR HISTORY

We were founded in September 1998 by Mr. LU in Wuxi City, China, when he invested in a manufacturing business for the production of machined parts and components. Since then, our business has grown and we have become one of the world’s leading manufacturers of high-precision, high-complexity and mission-critical casting and machined components for diverse end-markets.

As of the date of this prospectus, we have established a global presence with strategically located production, logistics and sales facilities in Asia, Europe and North America. We have 15 production facilities in China, Turkey, Germany, the Czech Republic, and Mexico, which are supported by nine sales offices in China, North America, Luxembourg, Germany, Turkey, and Hong Kong, as well as warehousing capacities in these countries. These strategic locations around the world enable us to better allocate internal resources, reduce transportation costs and lead time, and serve our global customers in a timely manner. Our products are sold to more than 30 countries and regions and serving global industry leaders in diverse end-markets.

DEVELOPMENT OF OUR GROUP

Founding of our Group

Prior to the establishment of our Group, Mr. LU began his career as a technician at Wuxi Textile Machinery Research Institute (無錫紡織機械研究所) in China, where he acquired knowledge on the production process of machined parts and components. Mr. LU became general manager at production plants specializing in precision bearing products. When he worked at Jiangyin Bearing Factory (江陰市軸承廠) (“**Jiangyin Bearing**”) in 1995, Mr. LU was appointed as a director of Wuxi Viking, of which Jiangyin Bearing was a shareholder, and was charged with the day-to-day management of Wuxi Viking. Wuxi Viking was a cooperative joint venture established in the PRC in May 1995 and was then owned as to 38.60% by Jiangyin Bearing, 36.76% by Wuxi Suburb Utilities Maintenance Administration Department (無錫市郊區市政設施養護管理處) (“**Wuxi Utilities**”), and 24.64% by QA1 Precision Products, Inc. (“**QA1 Precision**”). Jiangyin Bearing, Wuxi Utilities, and QA1 Precision were Independent Third Parties. In 1997, Wuxi Utilities transferred its equity interest in Wuxi Viking to Wuxi Xijiao Real Estate Management Co. Ltd (無錫市西郊物業有限公司) (“**Wuxi Xijiao**”), and QA1 Precision transferred its equity interest in Wuxi Viking to Newin Company Inc. (“**Newin**”). Both Wuxi Xijiao and Newin were Independent Third Parties and were passive investors with no involvement in the management of Wuxi Viking. Subsequent to the increase of Newin’s equity

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

investment in Wuxi Viking, the registered capital of Wuxi Viking was held as to 36.19% by Jiangyin Bearing, 34.49% by Wuxi Xijiao, and 29.32% by Newin. Our Plant 1, which was the first production facility of our Group, was established and operated by Wuxi Viking and was then engaged in the production of machined parts and components.

In September 1998, Mr. LU established Wuxi Yingzhan with an initial registered capital of RMB1.0 million. Wuxi Yingzhan subsequently acquired from Jiangyin Bearing 36.19% equity interest in Wuxi Viking for cash consideration of RMB721,841, and made a further investment of US\$30,000 in cash to Wuxi Viking, thereby increased its equity interest in Wuxi Viking to 37.29%. Wuxi Yingzhan became the largest equity holder of Wuxi Viking, with Wuxi Xijiao and Newin holding 33.89% and 28.82% of the equity interest in Wuxi Viking, respectively.

In 2002, Wuxi Xijiao disposed of 16.95% of its equity interest in Wuxi Viking to Wuxi Yingzhan; and Newin disposed of all of its 28.82% equity interest in Wuxi Viking to Impro International, an investment holding company then owned as 90% by Mr. LU and 10% by Ms. WANG. After the equity transfers, Wuxi Viking was then owned by Wuxi Xijiao as to 16.94%, Wuxi Yingzhan as to 54.24%, and Impro International as to 28.82%. In April 2005, Wuxi Xijiao transferred all of the remaining 16.94% equity interest in Wuxi Viking to Wuxi Binhu Urban Construction Assets Investment Company (無錫市濱湖區城建資產經營投資公司) (“**Wuxi Binhu**”), an Independent Third Party, and Impro International acquired from Wuxi Yingzhan 54.24% equity interest in Wuxi Viking, after which Wuxi Viking was owned as to 83.06% by Impro International. In November 2005, Impro International acquired from Wuxi Binhu the remaining 16.94% equity interest in Wuxi Viking for cash consideration of RMB2,500,000 and became Wuxi Viking’s sole equity shareholder. Following completion of this transfer in 2005, Wuxi Viking changed its name to Impro China.

Business expansion

Organic growth

From the year 2000, we continued to establish production facilities in the PRC which utilise the production methods and technologies developed by Mr. LU in collaboration with senior engineers and technicians working for Impro China. During the six years from 2000 to 2006 we established five production facilities in China, we expanded our product and service offerings to investment casting, precision machining, sand casting and surface treatment. In 2008, we transformed the production process at one of our production plants, i.e. Plant 3, for the production of aerospace components and products, and received the international aerospace accreditations for the products. For the purpose of providing better services to our customers, we continued to expand our business by establishing overseas logistics centers and sales and customer services offices in the United States, Europe and Hong Kong.

Leveraging our success in managing overseas production facilities, our first production facility in Mexico, i.e. IMMX, commenced operation in April 2017 for the production of high-precision machining components and parts and extended our production capability to North America.

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

Strategic acquisitions

Our strategic acquisitions started in 2012 and since then, we have acquired a total of six production facilities. In 2012, we acquired the entire equity interest in Impro Taizhou from an Independent Third Party for cash consideration of RMB42.5 million, which amount was agreed after arm's length negotiations with reference to the net asset value of Impro Taizhou as of December 31, 2011 and the agreed valuation of certain property, plant and equipment and intangible assets owned by Impro Taizhou. The consideration for the acquisition was settled in June 2012. Impro Taizhou currently operates our Plant 7, which is engaged in sand casting. We acquired the Shenhai Group in 2014, which owned and operated Plant 8 and is engaged in plating and surface treatment. Impro China acquired the entire equity interest in each member of the Shenhai Group for the initial total consideration of RMB642.8 million, which amount was determined with reference to the earnings before interest, tax, depreciation and amortization (“**EBITDA**”) in the first quarter of 2015 of all members of the Shenhai Group and an agreed price/earnings multiple. The final amount of the consideration was RMB613.8 million following the adjustments set out in the relevant definitive acquisition agreements in November 2014 and June 2015. The acquisition of the Shenhai Group has been completed. The consideration is to be paid by instalments and as of the Latest Practicable Date, there remained RMB54.7 million to be paid upon the fulfilment of certain completion conditions in the acquisition agreements and the progress of the ongoing arbitration in the PRC. For further details regarding the payment of the consideration, please see “Business — Legal Proceedings — Arbitration with Certain Former Shareholders of Shenhai Group.”

We started venturing overseas in 2013 when we acquired the BFG Group, which is engaged in investment casting and manufacturing in Germany and the Czech Republic. Impro Europe acquired directly and indirectly the entire equity interest in each member of the BFG Group from Independent Third Parties for an aggregate cash consideration of EUR5.1 million, which amount was determined based on net asset value of BFG Group as of December 31, 2012. The consideration for the acquisition of the BFG Group was settled in April 2013. Members of the BFG Group currently operate our production plants of BFGM, BFGH and BFGCZ. In August 2014, Impro Europe acquired the entire equity interest in Cengiz Makina from Independent Third Parties for an aggregate cash consideration of EUR75.0 million, which amount was determined with reference to its EBITDA during the 12-month period ended June 30, 2014. The consideration for the acquisition was settled in August 2014. At the time of acquisition, Cengiz Makina operated the production plant of CMTR-1. In September 2016, Cengiz Makina acquired a land parcel of approximately 17,357 square metres for the establishment of a new production plant of CMTR-2 which will be used for the production of high-precision machining components and parts, and we further extended our global footprint to Turkey.

Our legal advisors have confirmed that all applicable regulatory approvals in relation to each of the acquisitions as described above have been obtained and each of the acquisitions has been properly and legally completed and settled.

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

Further information on our production facilities is set out in the paragraphs under “Our Production Facilities” and the section headed “Business — Production — Production Facilities” in this prospectus.

Investments from other investors

Equity investments by previous investors

On January 21, 2008, we received an equity investment from Lehman Brothers Commercial Corporation Asia Limited (“**Lehman**”), pursuant to which our Company issued 61,531 Series A Preference Shares to Lehman for cash consideration of US\$20 million. On June 10, 2008, we received another equity investment from DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbH (“**DEG**”), pursuant to which our Company issued 28,292 Shares to DEG for cash consideration of US\$10.0 million. The 28,292 Shares issued to DEG were subsequently repurchased by our Company on September 21, 2009 and our Company issued 28,292 Series A Preference Shares to DEG. The funds raised from the equity investments by Lehman and DEG were used as capital contribution to our operating subsidiaries in the PRC and aided us in our growth and business expansion. On June 17, 2011, all Series A Preference Shares held by Lehman and DEG were converted into 61,531 Shares and 28,292 Shares, respectively. On June 17, 2011, Impro Development transferred 10,858 Shares and 4,993 Shares to Lehman and DEG, respectively, pursuant to the conversion adjustment mechanism as part of the agreed terms of their equity investments. Furthermore, in July 2011, our Company repurchased 24,287 Shares from Lehman and 11,667 Shares from DEG for US\$10.0 million and US\$5.0 million, respectively, pursuant to the agreed terms of the equity investments. Thereafter, Lehman and DEG remained as holders of 48,102 Shares and 21,618 Shares, respectively. Lehman was subsequently in liquidation, and DEG indicated to us that it would like to dispose of its investment in our Company.

Equity investments by Pre-IPO Investors

In December 2011, we received an equity investment from Baring and we issued 329,916 new Shares to Baring for cash consideration for US\$65.0 million. The equity investment from Baring provided us with sufficient funds to repurchase all Shares then held by Lehman and DEG. The remaining amount of US\$34.8 million from the proceeds of Baring’s investment was used as our general working capital. In December 2011, we received an equity investment of US\$5.0 million from GE Capital for the issuance of 25,378 Shares to GE Capital.

In November 2015, ASF Radio acquired from GE Capital all the 25,378 Shares held by GE Capital for US\$10.3 million, and became our Shareholder. Pursuant to the Baring Subscription Agreement, Baring issued and allotted 127,875 class B ordinary shares in Baring to Ping An SPV (as designee of China Ping An), representing 38.76% of the ordinary shares in issue of Baring, for cash consideration of US\$75.0 million. No member of our Group was involved in this transaction and the consideration was not received by any member of our Group. On July 24, 2018, Ping An SPV acquired from Baring 127,875 Shares in consideration of 127,875 class B ordinary shares of Baring being redeemed by Baring.

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

In March 2019, GT Cedar acquired 81,162 Shares from Ping An SPV for cash consideration of US\$45.0 million, representing 6.35% of the total number of Shares in issue, and became our Shareholder. The remaining 46,713 Shares held by Ping An SPV were acquired by Impro Development for a cash consideration of US\$25.9 million. Pursuant to the sale and purchase agreement dated March 29, 2019, the relevant amount of consideration was duly settled on March 29, 2019 between GT Cedar and Ping An SPV, and between Impro Development and Ping An SPV, respectively. The transaction was negotiated and completed between Ping An SPV, Impro Development, and GT Cedar without any participation of our Company (other than the approval of the Share transfer by our Board for updating our register of members) and the other Shareholders, i.e. Baring and ASF Radio. Following this transaction, Ping An SPV has ceased to have any equity interest in our Company.

Baring, GT Cedar and ASF Radio are our Pre-IPO Investors.

The present and beyond

Today, we have developed into a global industry leader culminating from years of dedication, innovation and hard work. We have nurtured strong and long-standing relationships with our well-recognized global leading customers in a wide range of sectorial end-markets including, amongst others, passenger cars, commercial vehicles, high horsepower engines, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boats and vehicles, medical and energy.

With the leadership of Mr. LU and the support of our excellent management team, we endeavor to reinforce our market position as one of the world's leading manufacturers of high precision, high complexity, mission-critical components and solutions; and a reliable, flexible and business partner to global industry leaders. At the same time, we wish to continue our efforts and commitment to social responsibility, and be an enterprise truly valued by our customers, shareholders, employees, and the society at large.

BUSINESS MILESTONES

The following table sets forth the key business milestones:

| Year | Business Milestones |
|-----------|--|
| 1998..... | Mr. LU established Wuxi Yingzhan and the business of manufacturing machined parts and components in Wuxi, the PRC, at Plant 1. |
| 1998..... | We established our first overseas sales and customer services office and warehouse in the United States. |
| 2000..... | We started precision machining business through the establishment of Plant 2. |
| 2003..... | We established Impro Germany and our sales and customer services offices in Germany. |

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

| Year | Business Milestones |
|-----------|--|
| 2004..... | We started sand casting business through the establishment of Plant 3. |
| 2004..... | We expanded our investment casting business through the establishment of Plant 5, which has now been combined into Plant 1 following the merger of Impro Metal-Tech into Impro China. |
| 2005..... | We started surface treatment business through the establishment of Plant 4. |
| 2005..... | We were accredited with ISO9001, and IATF 16949 (in respect of automotive products). |
| 2006..... | The production facilities at Plant 2 were used for the production of precision bearing and hydraulic products. The production facilities at Plant 6 were established for sand casting and secondary machining. |
| 2008..... | We received the AS9100 certification for our aerospace products. Plant 3 was transformed into the production facility for aerospace and medical products. We received equity investment from Lehman of US\$20.0 million. We received equity investment from DEG of US\$10.0 million. |
| 2009..... | Plant 3 was awarded its first NADCAP Aerospace Special Process accreditation. |
| 2011..... | Our worldwide headquarters were relocated to Hong Kong. We received equity investments from Baring and GE Capital of US\$65.0 million and US\$5.0 million, respectively, and we repurchased all the remaining Shares held by Lehman and DEG using funds from such equity investments. |
| 2012..... | We established our regional headquarters in Europe in Luxembourg to manage sales, warehousing and logistics centres. |
| 2012..... | We began our external growth. We acquired Impro Taizhou and Plant 7 located in Taizhou, China, which focuses on sand casting. |
| 2013..... | We acquired the BFG Group which operated three production facilities located in Germany and the Czech Republic, and extended our global footprint. |
| 2014..... | We acquired the Shenhai Group and Plant 8 in Haimen City, Jiangsu, China. |
| 2014..... | We acquired Cengiz Makina in Turkey which operated a production facility. |

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

| Year | Business Milestones |
|------------|---|
| 2016 | We established a new production facility in Mexico which engages in precision machining. |
| 2016..... | As part of our regional expansion plan, Cengiz Makina acquired a land parcel in Turkey for the extension of our existing production facility. |
| 2017..... | Impress Impeller has become a non-wholly owned subsidiary of our Company with increased registered and paid-up capital of US\$2.97 million. |
| 2019..... | Impro Industries Mexico and Impro Aerospace Mexico acquired two parcels of land in Mexico for construction of new production plant in the total consideration of US\$7.7 million. |

OUR PRODUCTION FACILITIES

We currently have 15 production facilities, including nine in China, two in Turkey, two in Germany, one in the Czech Republic and one in Mexico. Please refer to the section headed “Business — Production — Production Facilities” in this prospectus for detailed information.

OUR CORPORATE STRUCTURE

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 8, 2008 and is an investment holding company.

Our subsidiaries

As of the Latest Practicable Date, we have 21 subsidiaries incorporated or established in the BVI, Hong Kong, the PRC, the United States, Luxembourg, Germany, the Czech Republic, Turkey, and Mexico. Further information on our subsidiaries is set forth below.

| Subsidiary | Date of Establishment/ Commencement of Business | Place of Establishment | Principal Business Activities | Issued/Paid-in Share Capital | | |
|---------------------------|---|------------------------|---|---------------------------------|-----------------------------------|-------------------------------------|
| | | | | As of the Date of Establishment | As of the Latest Practicable Date | Ownership Percentage ⁽¹⁾ |
| Impro Holdings | December 22, 2016 | BVI | Investment holding | Nil | US\$128,206 | 100% ⁽²⁾ |
| Impro International | June 16, 2000 | Hong Kong | Investment holding and manages sales and customer service office in Hong Kong | HK\$10,000 | HK\$1,000,000 | 100% ⁽³⁾ |

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

| Subsidiary | Date of Establishment/ Commencement of Business | Place of Establishment | Principal Business Activities | Issued/Paid-in Share Capital | | Ownership Percentage ⁽¹⁾ |
|---|---|------------------------|---|---------------------------------|-----------------------------------|-------------------------------------|
| | | | | As of the Date of Establishment | As of the Latest Practicable Date | |
| Impro Investment | March 22, 2012 | Hong Kong | Investment holding | HK\$100 | HK\$100 | 100% |
| Impro China | May 12, 1995 | PRC | Operates Plant 1 and Plant 5 | US\$1.6 million | US\$61.8 million | 100% |
| Impro-Bees Bearing ⁽⁴⁾ | June 15, 2006 | PRC | Operates Plant 2 | US\$3.5 million | US\$15.8 million | 100% |
| Impro Aerospace Wuxi..... | August 9, 2002 | PRC | Operates Plant 3 | US\$5.0 million | US\$20.0 million | 100% |
| Impro-Bees Plating & Painting | August 31, 2004 | PRC | Operates Plant 4 | US\$1.0 million | US\$1.0 million | 100% |
| Impro Yixing ⁽⁶⁾ | April 19, 2006 | PRC | Operates Plant 6 | US\$12.0 million | US\$43.8 million | 100% |
| Impro Taizhou..... | June 30, 2006 | PRC | Operates Plant 7 | US\$6.5 million | US\$6.5 million | 100% |
| Shenhai Industrial..... | October 12, 2001 | PRC | Operates Plant 8 | RMB7.76 million | RMB10.4 million | 100% |
| Haimen Xinhai | January 14, 2005 | PRC | Haimen Xinhai has ceased business activities during the Track Record Period and as at the Latest Practicable Date | US\$0.5 million | US\$3.5 million | 100% |
| Impress Impeller..... | February, 12 2011 | PRC | Operates Plant 9 | US\$2.0 million | US\$2.97 million | 67% ⁽⁵⁾ |
| Impro USA | November 25, 1998 | United States | Manages our logistics centers, warehouses, sales and customer services offices in the U.S. | 2,738 shares without par value | US\$0.5 million | 100% |
| Impro Europe | May 29, 2012 | Luxembourg | Investment holding company of the BFG Group and Cengiz Makina, and manages our logistics centre, sales and customer services office in Europe | EUR20,000 | EUR20,000 | 100% |
| Impro Germany | May 2, 2003 | Germany | Operates customer services offices in Germany, provides sales support to customers in Germany | EUR25,000 | EUR250,000 | 100% |

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

| Subsidiary | Date of Establishment/ Commencement of Business | Place of Establishment | Principal Business Activities | Issued/Paid-in Share Capital | | Ownership Percentage ⁽¹⁾ |
|--|---|------------------------|--|---------------------------------|-----------------------------------|-------------------------------------|
| | | | | As of the Date of Establishment | As of the Latest Practicable Date | |
| BFG-Niederrhein | September 18, 2001 | Germany | Operates BFGM, our plant in Niederrhein, Germany, sale of investment casting products | EUR25,000 | EUR490,000 | 100% |
| BFG-Hessen..... | July 8, 2009 | Germany | Operates BFGH, our plant in Hirzenhain, Germany, sale of investment casting products | EUR25,000 | EUR25,000 | 100% |
| BFG-Czech..... | September 19, 2007 | Czech Republic | Operates BFGCZ, our plant in the Czech Republic, sale of investment casting products | CZK200,000 | CZK1.45 million | 100% |
| Cengiz Makina..... | January 27, 1995 | Turkey | Operates CMTR-1 and CMTR-2, our two precision machinery plants in Turkey. CMTR-2 is currently under construction and estimated to commence operation in the second quarter of 2019 | TL50 | TL7.0 million | 100% |
| Impro Industries Mexico ⁽⁷⁾ | March 18, 2016 | Mexico | Operates IMMX, our precision machinery plant in Mexico | MEX\$3,000 | MEX\$160,000,000 | 100% |
| Impro Aerospace Mexico ⁽⁸⁾ | February 17, 2017 | Mexico | It has yet to commence commercial operations | MEX\$3,000 | MEX\$21,141,590 | 100% |

Notes:

- (1) Since the date of its establishment or completion of acquisition, as the case may be.
- (2) On June 30, 2017, the issued share capital of Impro Holdings was increased from US\$1 to US\$128,206 by the allotment and issue of additional 128,205 shares to our Company in consideration of our Company's transfer of 1,000,000 shares in Impro International to Impro Holdings.
- (3) On the date of its incorporation, Impro International was owned by Mr. LU as to 80.0% and Mr. LU Jianlin as to 20.0%. On June 10, 2002, Mr. LU Jianlin transferred his shareholding in Impro International to Mr. LU and Ms. WANG in equal shares. On September 7, 2004, Mr. LU and Ms. WANG transferred their 20% shareholdings in Impro International to Impro Development. In January 2008, the issued share capital of Impro International was increased to HK\$1.0 million, divided into 1,000,000 shares, with all issued shares transferred from Impro Development to our Company, in consideration of 936,900 Shares allotted and issued to Impro Development. On June 30, 2017, our Company transferred all shares in Impro International to Impro Holdings for cash consideration equivalent to the aggregate nominal value.

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

- (4) Effective from March 5, 2012, all assets and liabilities of Impro-Bees Machinery were merged with Impro-Bees Bearing, which production facilities were also situated at our Plant 2.
- (5) Pursuant to the joint venture contract entered into between Impro Yixing and Ross Casting dated September 21, 2010 (the “**Joint Venture Contract**”), as amended by the supplemental agreement entered into between Impro Yixing and Ross Casting dated July 24, 2017, Impro Yixing and Ross Casting agreed to set up Impro Impeller as a joint venture with a term of 50 years commencing on February 12, 2011.

On the date of its establishment, Impro Impeller was owned as to 51.0% by Impro Yixing and as to 49.0% by Ross Casting. Ross Casting is a limited liability company incorporated in Delaware, the United States, and is principally engaged in supplying aluminum castings to a wide range of customers in the industrial and automotive markets. It is also engaged in the research and development and production of cold-side turbocharger wheels. Impro Impeller was not a non-wholly owned subsidiary of our Company until August 2017 following the subscription for the increased registered capital of Impro Impeller of US\$969,696.97 by Impro Yixing for cash consideration equivalent to the aggregate nominal value. Following the capital increase, Impro Impeller has registered capital of US\$2.97 million and is owned as to 67.0% by Impro Yixing and as to 33.0% by Ross Casting and is a non-wholly owned subsidiary of Impro Yixing.

Pursuant to the Joint Venture Agreement, the profit and loss of Impro Impeller are shared by Impro Yixing and Ross Casting in proportion to their respective contributions to the registered capital. From August 2017, the profit and loss of Impro Impeller are shared by Impro Yixing and Ross Casting in the percentages of 67.0% and 33.0%, respectively.

Pursuant to the Joint Venture Contract, each party is restricted in transferring or pledging their equity interest and each party has a pre-emptive right. Impro Yixing has the right to appoint the majority of the board of five directors, and the chairman of the board. Save for certain reserved matters (such as the amendment of the constitution, liquidation, change in registered capital, establishment of branches, merger and division, pledge or mortgage of assets, obtaining of any borrowing, diversification into new businesses, export matters, the incurring of capital expenditures over a certain amount, intellectual property, appointment of professionals and amendment of any related agreements), all decisions of the board of directors of Impro Impeller are decided by simple majority. Each of Impro Yixing and Ross Casting has covenanted that it shall not (and shall cause its shareholders and affiliate not to) compete with the production and sales in China of compressor wheels in relation to turbochargers produced by Impro Impeller, or have any direct or indirect interest in any business or any entity that competes with such businesses of Impro Impeller. Impro Yixing has also covenanted that it shall not have any direct or indirect interest in any business or any entity that competes with the production and sales of compressor wheels in all countries other than China by Ross Casting.

- (6) Pursuant to an investment agreement entered into between Impro International and China Yixing Environmental Technology Industry Park Management Committee dated December 21, 2018 (the “**Investment Agreement**”), Impro International, being the sole shareholder of Impro Yixing, has agreed to increase the registered capital of Impro Yixing by US\$30 million within a period of two years from the date of the Investment Agreement and the registered capital of Impro Yixing will be increased to US\$53.8 million. As of the Latest Practicable Date, the amount of paid-in capital of Impro Yixing is US\$43.8 million.
- (7) Impro International and Impro Investment, being the shareholders of Impro Industries Mexico, have agreed to increase the registered share capital of Impro Industries Mexico by MEX\$15,261,680 to MEX\$31,805,360 on January 24, 2019 and further increased to MEX\$160,000,000 on April 30, 2019. The increased amounts have been duly settled.
- (8) Impro Aerospace Mexico increased its registered share capital from MEX\$3,000 to MEX\$21,141,590 on April 30, 2019. The increased amount has been duly settled.

Save for the increase in issued share capital of Impro Holdings, the transfer of shares in Impro International, the increase in registered capital in Impro Impeller (subscribed by Impro Yixing), and the increases in the registered capital of Impro Yixing and Impro Industries Mexico as disclosed above, there were no changes to the share capital of members of our Group during the Track Record Period.

Deregistration of subsidiaries

Impro Metal-Tech was established in the PRC on March 31, 2004 and used to operate Plant 5, which was a foundry for investment casting. In May 2016, with a view to fully utilizing

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

our production resources and increasing our production efficiency, Impro China and Impro Metal-Tech entered into a merger agreement dated May 23, 2016, pursuant to which Impro Metal-Tech has been merged and combined into Impro China, and all the assets, liabilities, businesses and relevant interests of Impro Metal-Tech have been assumed by Impro China. Accordingly, Impro Metal-Tech was thereafter combined into Impro China. The de-registration of Impro Metal-Tech was completed in September 2016.

Shenhai Investment became our indirect subsidiary upon our acquisition of the Shenhai Group in June 2014. During the Track Record Period, Shenhai Investment did not carry on any business operations and was subsequently de-registered in November 2017.

Our Shareholders

Impro Development was incorporated on June 29, 2004 and has been wholly-owned by Mr. LU since its date of incorporation. Impro Development is an investment holding company of Mr. LU and is not a member of our Group. As of the date of this prospectus, Impro Development holds 75.85% of the number of Shares in issue. Upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into consideration our Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), Impro Development will hold 62.06% of the number of Shares in issue. Mr. LU and Impro Development will be our Controlling Shareholders.

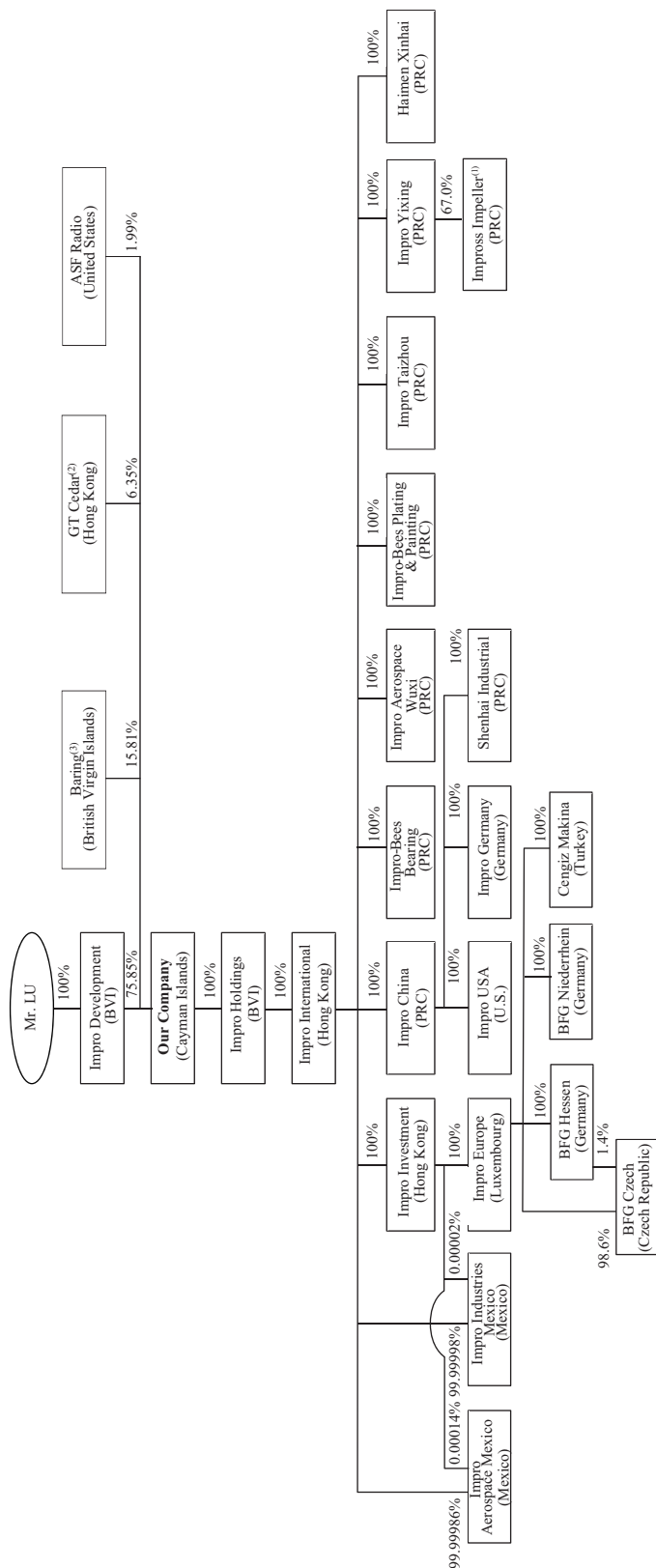
As of the date of this prospectus, Baring holds 15.81%, GT Cedar holds 6.35% and ASF Radio holds 1.99%, of the number of Shares in issue. Further information on Baring, GT Cedar and ASF Radio, and the pre-IPO investments is set forth in the paragraph headed “Pre-IPO Investments” below. Upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into consideration our Shares that may be issued pursuant to the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), Baring, GT Cedar and ASF Radio will hold 12.94%, 5.20%, and 1.62% of the total number of Shares in issue, respectively.

SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular 37**”) issued by SAFE and become effective on July 4, 2014, before a PRC resident contributes its legally-owned onshore or offshore assets and equity into an overseas special purpose vehicle, the PRC resident shall conduct foreign exchange registration for offshore investment with the local branch of SAFE. Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular 13**”), issued by SAFE and become effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks instead of the local branch of SAFE.

As confirmed by our PRC legal advisors, Mr. LU has completed the registration pursuant to SAFE Circular 37 on September 14, 2016.

The following diagram illustrates our shareholding and corporate structure as of the Latest Practicable Date:

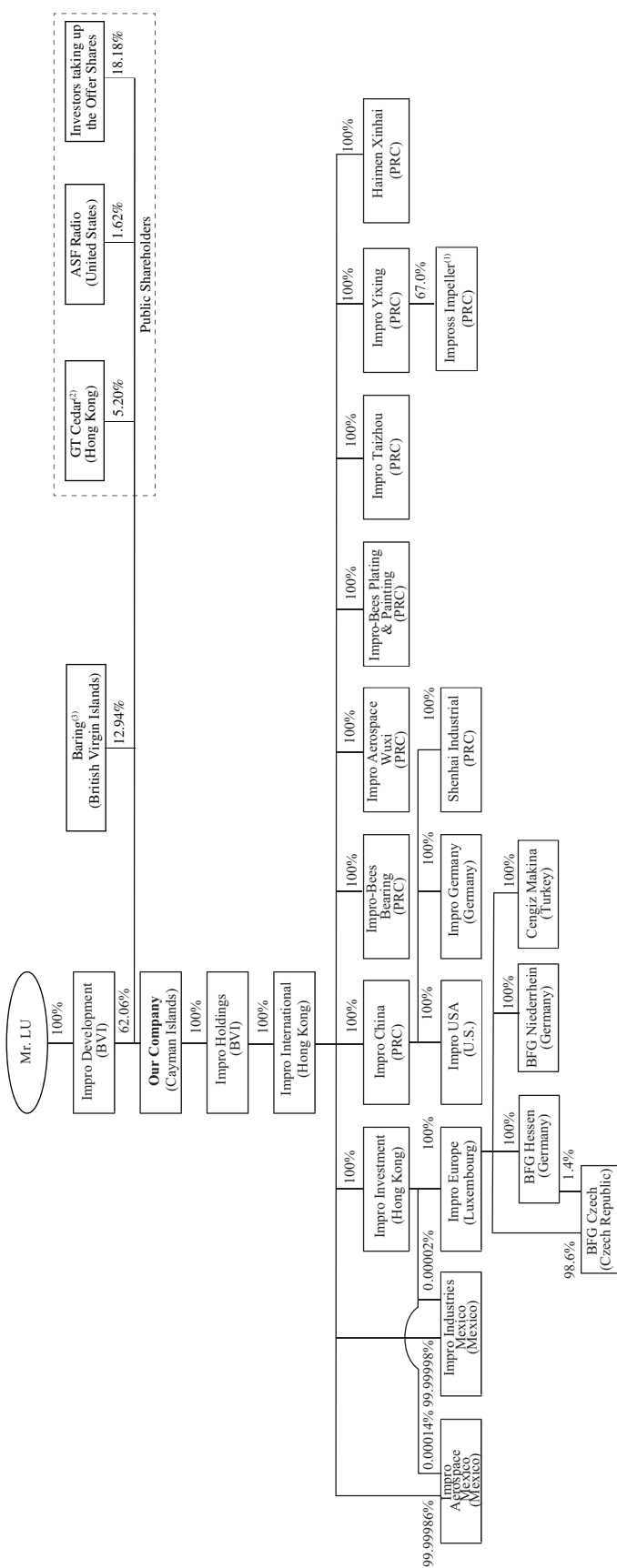


Notes:

- (1) The remaining 33.0% equity interest in Impress Impeller is owned by Ross Casting who is a connected person solely due to its equity holding in Impress Impeller.
- (2) GT Cedar is held by Genertec Investment Co. Ltd. (as to 80%) and Genertec Hong Kong International Capital Limited (as to 20%), which are in turn wholly-owned subsidiaries of China General Technology (Group) Holding Company Limited, a company established in the PRC under the State-owned Assets Supervision and Administration Commission of the State Council in the PRC.
- (3) Baring is wholly-owned by Casting Holdings Limited, which is in turn held by The Baring Asia Private Equity Fund V, L.P. (as to 99.35%) and The Baring Asia Private Equity Fund V Co-Investment L.P. (as to 0.65%).

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding and corporate structure immediately following completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and without taking into consideration any Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme):



Notes:

- (1) The remaining 33.0% equity interest in Inpro Impeller is owned by Ross Casting who is a connected person solely due to its equity holding in Inpro Impeller.
- (2) GT Cedar is held by Genertec Investment Co. Ltd. (as to 80%) and Genertec Hong Kong International Capital Limited (as to 20%), which are in turn wholly-owned subsidiaries of China General Technology (Group) Holding Company Limited, a company established in the PRC under the State-owned Assets Supervision and Administration Commission of the State Council in the PRC.
- (3) Baring is wholly-owned by Casting Holdings Limited, which is in turn held by The Baring Asia Private Equity Fund V, L.P. (as to 99.35%) and The Baring Asia Private Equity Fund V Co-Investment L.P. (as to 0.65%).

If the Over-allotment Option is exercised in full (without taking into consideration any Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), the public float would be 26.99% of the issued share capital of our Company.

OUR HISTORY AND DEVELOPMENT AND CORPORATE STRUCTURE

PRE-IPO SHARE OPTION SCHEME

On June 15, 2018, we adopted the Pre-IPO Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, we have granted the Pre-IPO Share Options to 161 Grantees, including four Connected Grantees and nine grantees who are members of our senior management team. The adoption of the Pre-IPO Share Option Scheme is subject to the Listing becoming unconditional. A summary of the principal terms and conditions of the Pre-IPO Share Option Scheme is set out in the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

PRE-IPO INVESTMENTS

The following sets forth information on the equity investments in our Company made by Baring, GT Cedar, and ASF Radio, all of them are, our Pre-IPO Investors.

Initial equity investments by Baring and GE Capital

Our Company, Impro Development, and Mr. LU entered into the Share Subscription Agreement dated December 24, 2011 with Baring and GE Capital, pursuant to which our Company allotted and issued to Baring 329,916 Shares, representing 25.82% of the then number of Shares in issue, for cash consideration of US\$65.0 million, and GE Capital 25,378 Shares, representing 1.99% of the then number of Shares in issue, for cash consideration of US\$5.0 million. The amount of equity investment by each of Baring and GE Capital was agreed upon following arm’s length negotiations between our Company and Baring and GE Capital, respectively, based on the profitability of our Group in 2011. The equity investment by Baring provided us with the funds for the repurchase of all Shares then held by Lehman and DEG, as well as additional funds for our general working capital. Our Board is of the view that Baring has been instrumental in formulating our growth strategies capitalizing on its investment expertise. The equity investment by GE Capital provided us with additional funding for our general working capital purposes.

GE Capital—Transfer of the equity investment to ASF Radio

On November 4, 2015, ASF Radio acquired 25,378 Shares from GE Capital for cash consideration of US\$10.3 million pursuant to a transfer and joinder agreement dated November 4, 2015. The amount of consideration was duly settled between ASF Radio and GE Capital, following which GE Capital has ceased to have any interest in our Shares. The transaction was negotiated and completed between GE Capital and ASF Radio without any participation by our Company (other than the approval of the Share transfer by our Board) and all other Shareholders, i.e. Impro Development and Baring.

Our Directors understand that the transfer was part of the strategy of GE Capital to dispose of most of the assets and investments of GE Capital with the focus on the core industrial business. Following the payment of the consideration in full on November 4, 2015,

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ASF Radio has assumed all the existing rights and benefits of GE Capital as a Shareholder effective from November 4, 2015. There is no change in the rights and benefits attached with our Shares or the rights previously enjoyed by GE Capital and assumed by ASF Radio as one of the Pre-IPO Investors.

Baring—Issue of new class B ordinary shares to Ping An SPV

Pursuant to the Baring Subscription Agreement, Ping An SPV (as designee of China Ping An) has subscribed for 127,875 new class B ordinary shares in Baring for US\$75.0 million. Following completion of this subscription, Baring is owned as to 61.24% by Casting Holdings Limited (which is in turn 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.) and 38.76% by Ping An SPV (as designee of China Ping An). The rights and obligations of China Ping An under the Baring Subscription Agreement were later assigned to Ping An SPV, a permitted designee under the terms of the Baring Subscription Agreement, on April 17, 2017. No member of our Group was involved in this transaction and the consideration was not received by any member of our Group.

Baring—Redemption of class B ordinary shares from Ping An SPV

On July 24, 2018, Ping An SPV acquired from Baring 127,875 Shares in consideration of 127,875 class B ordinary shares of Baring being redeemed by Baring. The redemption of the class B ordinary shares of Baring was irrevocably settled on July 24, 2018. Following such redemption, Baring became a wholly-owned subsidiary of Casting Holdings Limited and held 202,041 Shares, and Ping An SPV held 127,875 Shares. The transaction was negotiated and completed between Baring and Ping An SPV without any participation by our Company (other than the approval of the Share transfer by our Board for updating our register of members) and all other Shareholders, i.e. Impro Development and ASF Radio.

Ping An SPV — transfer of equity investment to GT Cedar and Impro Development

On March 29, 2019, Ping An SPV transferred 81,162 Shares and 46,713 Shares to GT Cedar and Impro Development for cash consideration of US\$45.0 million and US\$25.9 million, respectively, pursuant to a sale and purchase agreement dated March 29, 2019. The relevant amount of consideration was duly settled on March 29, 2019 between GT Cedar and Ping An SPV, and between Impro Development and Ping An SPV, respectively. The transaction was negotiated and completed between Ping An SPV, Impro Development, and GT Cedar without any participation of our Company (other than the approval of the Share transfer by our Board for updating our register of members) and the other Shareholders, i.e. Baring and ASF Radio.

Following this transaction, Ping An SPV has ceased to have any equity interest in our Company.

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Principal terms of the equity Investments

The following table sets out a summary of the principal terms of the equity investments by Baring, GT Cedar and ASF Radio:

| | <u>BARING</u> | <u>GT CEDAR</u> | <u>ASF RADIO</u> |
|--|--|---|---|
| Amount of consideration paid | US\$65,000,000 (paid to our Company) | US\$45,000,000 (paid to Ping An SPV) | US\$10,300,000 (paid to GE Capital) |
| Payment date of consideration | December 30, 2011 | March 29, 2019 | November 4, 2015 |
| Number of issued Shares | 329,916 (of which 127,875 Shares were transferred to Ping An SPV on July 24, 2018) | 81,162 | 25,378 |
| Cost per Share | US\$197.0 | US\$554.4 | US\$405.9 |
| (Discount)/premium to the Offer Price ⁽¹⁾ | (56.8)% | 21.4% | (11.1)% |
| Use of proceeds | The proceeds have been fully utilised towards (i) the repurchase of Shares from previous Shareholders; and (ii) our general working capital. | Not applicable. The amount of consideration was paid to Ping An SPV. | Not applicable. The amount of consideration was all paid to GE Capital. |
| Basis of determining the consideration | Arm's length negotiations between our Company and Baring based on the evaluation of the profitability of our Group in 2011. | Arm's length negotiations between GT Cedar and Ping An SPV, and Impro Development | Arm's length negotiations between ASF Radio and GE Capital |

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| | <u>BARING</u> | <u>GT CEDAR</u> | <u>ASF RADIO</u> |
|--|---------------|-----------------|------------------|
| Shareholding percentage immediately before completion of the Global Offering | 15.81% | 6.35% | 1.99% |
| Shareholding percentage immediately after completion of the Global Offering ⁽²⁾ | 12.94% | 5.20% | 1.62% |

Notes:

- (1) The discount percentages are based on an Offer Price of HK\$3.05, being the mid-point of the indicative range of the Offer Price between HK\$2.80 and HK\$3.30, and the number of Shares to be held by Baring, GT Cedar and ASF Radio after the Capitalization Issue.
- (2) The Shareholding percentages are based on the number of Shares in issue immediately after completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and without taking into consideration our Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme).

In relation to the equity investments by Baring and GE Capital, share mortgages both dated December 29, 2011 were executed by Impro Development in favor of Baring and GE Capital (as later assumed by ASF Radio) in relation to 246,963 Shares and 49,478 Shares, respectively. The share mortgages were entered into for the purpose of securing the obligations on Impro Development, our Company, Mr. LU, and any other party to any of the following transaction documents(, other than a Pre-IPO Investor): the Share Subscription Agreement, the Shareholders Deed, the Investor Rights Agreement, and any other documents contemplated by any of these agreements and the transactions contemplated thereunder. The share mortgages have been released and discharged since February 2018.

Ms. WANG has also provided letters of support for the equity investments by Baring and GE Capital (as later assumed by ASF Radio). Some of the terms of the equity investments have been amended by the Supplemental Deed, the Second Supplemental Deed, and the Third Supplemental Deed. In June 2017, Baring has waived its rights under the letter of support provided by Ms. WANG.

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Mr. LU also provided guarantees in favor of Baring and GE Capital (as later assumed by ASF Radio) for due and punctual payment and performance of the obligations of Impro Development and our Company under the Share Subscription Agreement, the Share Subscription Agreement, the Shareholders Deed, the Investor Rights Agreement, and any other documents contemplated by any of these agreements and the transactions contemplated thereunder.

Special rights of Baring, GT Cedar and ASF Radio

In connection with the equity investments made by the Pre-IPO Investors, (1) Impro Development, Mr. LU, Baring, and GE Capital entered into the Investor Rights Agreement, and (2) Impro Development, our Company, Mr. LU, Baring, ASF Radio and GT Cedar entered into the Amended and Restated Shareholders Deed, under which Baring, GE Capital (as later assumed by ASF Radio), and GT Cedar enjoy certain special rights, such as the right to nominate observer to our Board, pre-emptive right, tag along right, information right, exit right, and subscription right. Baring and GE Capital (as later assumed by ASF Radio) also enjoy anti-dilution right under the Investor Rights Agreement, pursuant to which, they have the right to require Impro Development to sell to them certain number of Shares at a nominal price if our Company issues any Shares with an implying value per Share of less than US\$197.0, being the cost per Share acquired by Baring. In order to secure the payment and discharge of the obligations of Mr. LU, Impro Development, and the Company under, inter alia, the Investor Rights Agreement and the Shareholders Deed, Mr. LU has provided guarantees in favour of Baring and GE Capital (as later assigned to ASF Radio).

Termination of the rights of Baring, GT Cedar and ASF Radio upon Listing

With respect to the rights of Baring, GT Cedar, and ASF Radio under the Investor Rights Agreement (as supplemented by the Supplemental Deed, the Second Supplemental Deed, the Third Supplemental Deed, and the Fourth Supplemental Deed) and the Amended and Restated Shareholders Deed, respectively:

- (a) the guarantees provided by Mr. LU in favour of Baring and ASF Radio will be terminated upon Listing;
- (b) all other special rights of Baring, GT Cedar, and ASF Radio granted under the Investor Rights Agreement and the Amended and Restated Shareholders Deed (as the case may be) will be terminated upon Listing.

Our Directors further confirm that the Articles of Association do not contain any provisions that provide any other special rights to Baring, GT Cedar, and ASF Radio, as Shareholders.

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Background of Baring, GT Cedar, and ASF Radio

Baring is an exempted company with limited liability incorporated in the British Virgin Islands. It is a special purpose vehicle wholly-owned by Casting Holdings Limited, a limited liability company incorporated under the laws of BVI. As at the Latest Practicable Date, Casting Holdings Limited was owned as to 99.35% by The Baring Asia Private Equity Fund V, L.P. (an exempted limited partnership organized and existing under the laws of the Cayman Islands). The general partner of The Baring Asia Private Equity Fund V, L.P. is Baring Private Equity Asia GP V, L.P. (an exempted limited partnership organized and existing under the laws of the Cayman Islands). The general partner of Baring Private Equity Asia GP V, L.P. is Baring Private Equity Asia GP V Limited (an exempted company with limited liability incorporated under the laws of the Cayman Islands). Baring Private Equity Asia GP V Limited is wholly-owned by Mr. Jean Eric Salata Rothleder. Mr. Jean Eric Salata Rothleder disclaims beneficial ownership of such Shares, except to the extent of his economic interest in such entities.

Baring will hold approximately 12.94% of the total number of our Shares in issue following completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised, and without taking into consideration our Shares that may be issued pursuant to the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme). Other than the investment of Baring in our Company as disclosed in this prospectus, Baring does not have any other relationship with our Group or any connected person (as defined under the Listing Rules) or our Company.

GT Cedar is a company incorporated under the laws of Hong Kong and is principally engaged in overseas equity investment business. GT Cedar is owned as to 80% by Genertec Investment Co. Ltd and 20% by Genertec Hong Kong International Capital Limited, which are ultimately owned by the State-owned Assets Supervision and Administration Commission of the State Council. GT Cedar will hold approximately 5.20% of the total number of Shares in issue following completion of the Capitalization Issue and the Global Offering without taking into consideration our Shares that may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme. Other than the investment of GT Cedar in our Company as disclosed in this prospectus, GT Cedar does not have any other relationship with our Group or any connected person (as defined under the Listing Rules) of our Company. The Shares held by GT Cedar will be treated as part of the public float of our Company following Listing for the purpose of Rule 8.08 of the Listing Rules.

ASF Radio is a Delaware limited partnership that holds a portfolio of private equity investments and which is governed by its general partner, ASF Radio GP, LLC. Juna Equity Partners, LP serves as ASF Radio's investment adviser. ASF Radio will hold approximately 1.62% of the total number of Shares in issue following completion of the Capitalization Issue and the Global Offering without taking into consideration our Shares that may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any

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option that may be granted under the Post-IPO Share Option Scheme). Other than the investment of ASF Radio in our Company as disclosed in this prospectus, ASF Radio GP, LLC does not have any other relationship with our Group or any connected person (as defined under the Listing Rules) of our Company. The Shares held by ASF Radio will be treated as part of the public float of our Company following Listing for the purpose of Rule 8.08 of the Listing Rules.

Following completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into consideration our Shares that may be issued pursuant to the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), Baring, GT Cedar and ASF Radio will hold 237,153,654 Shares, 95,267,123 Shares and 29,788,436 Shares, respectively, representing approximately 12.94%, 5.20% and 1.62% of the number of our Shares in issue. Each of Baring, GT Cedar and ASF Radio has entered into a Lock-up Deed in favour of our Company and the Joint Global Coordinators. Please refer to the sections headed “Underwriting — Undertakings by Baring Pursuant to the Baring Lock-up Deed”, “Underwriting — Undertakings by GT Cedar Pursuant to the GT Cedar Lock-up Deed” and “Underwriting — Undertakings by ASF Radio Pursuant to the ASF Lock-up Deed” for further information.

Confirmation from the Joint Sponsors

The Joint Sponsors have confirmed that the terms of the pre-IPO investments by Baring, GT Cedar and ASF Radio as described above are in compliance with (i) the Interim Guidance on the Pre-IPO investments issued by the Hong Kong Stock Exchange on October 13, 2010 and as updated in March 2017, as the considerations for the pre-IPO investments were all settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Hong Kong Stock Exchange in relation to the Listing; (ii) the Guidance Letter HKEx-GL43-12 issued by the Hong Kong Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and (iii) the Guidance Letter HKEx-GL44-12 issued by the Hong Kong Stock Exchange in October 2012 and as updated in March 2017, as the special rights granted to each of Baring, GT Cedar, and ASF Radio will be terminated upon Listing.

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OVERVIEW

We are a global top 10 manufacturer of high-precision, high-complexity and mission-critical casting and machined components for diverse end-markets. We supply customized casting and machined products and provide surface treatment services to a well-diversified global customer base. According to the Roland Berger Report, we were the world's 7th largest independent and China's largest investment casting manufacturer and the world's 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2018. Our global leading position is underpinned by our integrated business model with comprehensive capabilities of offering one-stop solutions to our customers.

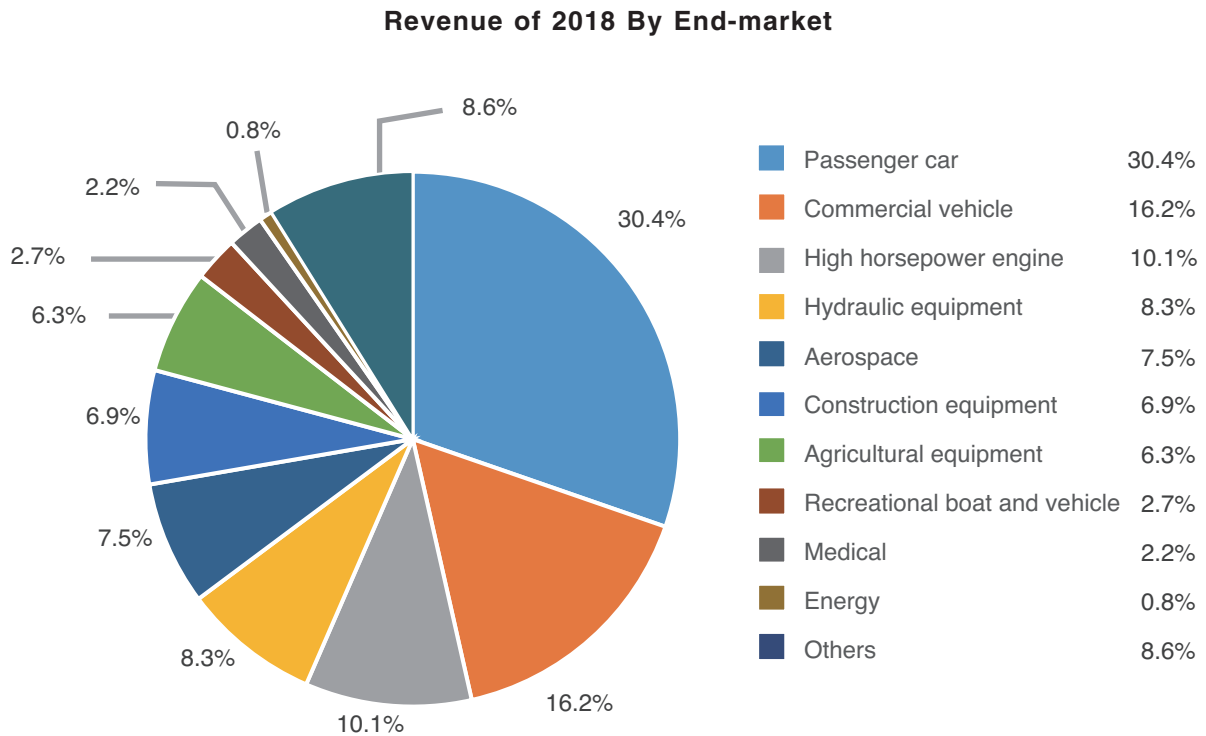
Many of our customers are renowned global leaders in their respective industries, including Benteler, Bosch, Caterpillar, Cummins, Honeywell, HUSCO, Modine and Parker-Hannifin. We have been selected as a strategic and long-term supplier for many of our major customers, for whom we develop highly customized products. We are one of a limited number of manufacturers that not only possesses essential industry-specific certifications, but has also passed these well-recognized customers' stringent and lengthy internal supplier qualification processes.

We operate primarily in four business segments: investment casting, precision machining, sand casting and surface treatment. In 2018, we achieved a total revenue of HK\$3,749.1 million, representing a 23.0% increase from 2017. Revenue derived from investment casting, precision machining, sand casting and surface treatment segments accounted for 42.2%, 32.4%, 16.0% and 9.4%, respectively, of our total revenue in 2018. Currently, investment casting is our largest business segment and will continue to be our core business segment.

We serve customers which have global presence in a wide range of sectorial end-markets. Our principal end-markets include passenger car, commercial vehicle, high horsepower engine, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boat and vehicle, medical and energy. In particular, we strategically target to increase sales to the end-markets that we believe have higher profitability and

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stronger growth potential, such as aerospace and medical end-markets. The following chart shows compositions of our revenue by end-market for 2018:



Our integrated operations enable us to offer comprehensive one-stop solutions, including a suite of value-added services, which cover the precision component value chain. Leveraging our strong product design and development capabilities as well as advanced technologies and expertise, we strive to keep abreast of global industry trends and manufacture products that cater to customers' evolving needs and satisfy their high quality requirements. We also seek to further penetrate into new markets by exploring cross-selling opportunities across different business segments of our existing customers and across the end-markets in which they operate.

We have established business presence with strategically located production, sales and warehousing facilities in China, Europe and North America. We currently have 15 production facilities in China, Turkey, Germany, the Czech Republic and Mexico, which are supported by nine sales offices in China, North America, Luxembourg, Turkey, Germany and Hong Kong, as well as warehousing capacities in China, North America, Luxembourg and Turkey. Each of our production plants also maintain certain warehousing capacities to meet customer demands. These strategic locations around the world enable us to better allocate internal resources, reduce logistics costs and lead time, and serve our global customers in a timely manner. In 2018, our revenue derived from the United States, Europe, China and Asia (excluding China) accounted for 42.0%, 32.6%, 22.9% and 2.5%, respectively, of our total revenue.

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The following map shows the geographic locations of our production, sales and warehousing capacities as of the date of the Latest Practicable Date:



Since our inception in September 1998, we have successfully implemented our “Twin Growth Engines” strategy, growing our business both organically and through successful acquisitions, transforming ourselves from a small local PRC machined part and component manufacturer to a company with sizable global operations that offers comprehensive one-stop solutions, and extending our business footprint from China to North America and Europe. Please refer to “Our History and Development and Corporate Structure — Business Milestones” for more details about our historical development milestones.

Our revenue increased at a CAGR of 21.3% from HK\$2,547.2 million in 2016 to HK\$3,749.1 million in 2018 and our gross profit margin increased from 30.2% in 2016 to 32.2% in 2018. The increase in revenue was mainly driven by the increasing demand for end products of our customers in the relevant end-markets and geographic markets, which in turn led to growing demand for our products and services, more advanced technology available to our customers to achieve higher industry standard and increasing demand for our high end products, as well as the sales generated from new product development and also new customers acquired. We recorded a CAGR of 34.2% in adjusted net profit after tax (the “adjusted NPAT⁽¹⁾”) where our adjusted NPAT increased from HK\$344.2 million for the year ended December 31, 2016 to HK\$620.2 million for the year ended December 31, 2018. Our adjusted NPAT margin improved from 13.5% in 2016 to 16.5% in 2018.

Note:

- (1) We define adjusted NPAT as net profit after tax for the year adjusted for the after-tax impact of certain significant one-off items, as well as the amortization and depreciation related to the purchase price allocation adjustments as a result from the acquisitions of Shenhai Group and Cengiz Makina in 2014.

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OUR STRENGTHS

We believe the following competitive strengths have contributed, and will continue to contribute, to our success and distinguish us from our competitors:

Global Top 10 and China's Largest Manufacturer of High-precision, High-complexity and Mission-critical Casting Components

We are a global Top 10 manufacturer of customized high-precision, high-complexity and mission-critical casting and machined components. According to the Roland Berger Report, we were the world's 7th largest independent and China's largest investment casting manufacturer and the world's 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2018. We were also the 5th largest market player of complex and high performance sand casting globally and the 3rd largest electroplating market player in China, each in terms of segment revenue in 2018, according to the Roland Berger Report. In addition, we also have the broadest certification coverage and metal coverage compared with other electroplating players in China.

We focus on manufacturing mission-critical products with highly precise and complex specifications, which require greater engineering expertise and generally command higher profit margins than less complex and standardized components. We have developed strong expertise in the design and manufacturing of tooling as well as customized product design and development. Such expertise has enabled us to manufacture a wide range of highly engineered products for mission-critical applications such as aerospace, medical, engines, hydraulic equipment, fuel and emissions systems. Our sophisticated and flexible production capacity enables us to fulfill large volume orders as well as meet demand for low-volume and high-mix orders. During the Track Record Period, we developed over 3,600 customized engineered SKUs (meaning new SKUs developed in the relevant period) and as of December 31, 2018, we offered an aggregate of over 8,000 active customized engineered SKUs (meaning SKUs that had contributed revenue during the past 12 months).

Our leading market position is also underpinned by the consistent and superior quality of our products and services. To meet the complex and demanding requirements of our customers, we deploy advanced machinery and equipment for our production, measurement and testing procedures. We have implemented and maintained stringent quality management and assurance procedures across our production facilities to ensure consistently high quality products.

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Strategic and Long-term Relationships with Well-recognized Global Industry Leaders, Having Passed Their Stringent Certification Requirements

We endeavor to attract and retain customers by offering one-stop solutions with high-complexity, high quality products and services. Many of our customers are well-recognized global leaders in their respective industries, including Benteler, Bosch, Caterpillar, Cummins, Honeywell, HUSCO, Modine and Parker-Hannifin. We have maintained a strategic and long-term business relationship with our top 10 customers in terms of revenue of 2018 for an average of 14 years, except for Bosch, which has been a customer of Cengiz Makina since its inception. Our involvement in product design and development at the early stage with our customers and our manufacturing expertise provide our customers with more cost effective production solutions.

Generally, these global industry leaders are highly selective in qualifying new suppliers with respect to mission-critical products given the high costs and risks of switching suppliers, especially where product reliability is critical. We have been selected as a strategic and long-term supplier for many of our major customers, with whom we co-develop highly customized products. We are one of a limited number of manufacturers that do not only possess essential industry-specific certifications, but have also passed these customers' stringent and lengthy internal supplier qualification processes. Due to our robust product development expertise and high technical capabilities, we have obtained the ISO 9001 quality management certification for 10 of our plants. We have been accredited with AS 9100 and NADCAP certificates which are prerequisites to supplying to the aerospace market, and ISO 13485, a certification for medical quality management system. In addition to these industry-specific certifications, some of our customers also have additional internal requirements and procedures for qualifying suppliers. Obtaining and maintaining these certifications and passing these major customers' internal supplier selection procedures are both time consuming and costly, which constitute a significant barrier-to-entry for new industry players with no proven track record.

We enjoy an excellent reputation in the precision component industry, as demonstrated by a number of awards or certifications we have received from our major customers, such as the "Caterpillar Quality Excellence Certification" from Caterpillar in 2017, the "Supplier of the Year" award from GE in 2015 and the "Daimler Benz Best Quality Award" from Mercedes-Benz Werk Mannheim in 2015. We were also recognized as an "Excellent Supplier" by Cummins consecutively from 2013 to 2015 and received various supplier excellence awards by Honeywell in 2014, 2017, 2018 and 2019.

Worldwide Manufacturing Footprint and Service Network Ensuring Fast and Superior Customer Service

We have developed a worldwide footprint to serve our global customer base, by strategically locating our 15 production facilities in China, Turkey, Germany, the Czech Republic and Mexico, which are supported by our sales offices in China, North America,

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Luxembourg, Turkey, Germany and Hong Kong, as well as warehousing capacities in North America, China, Luxembourg and Turkey. Each of our production plants also maintain certain warehousing capacities to meet customer demands. We strategically locate our facilities close to our existing and potential customers.

The majority of our production capacity is located in China, enabling us to achieve economies of scale, enjoy relatively lower manufacturing costs and a stable supply of key raw materials. Facilities in North America and Europe, on the other hand, focus on serving local and regional overseas customers. Geographic proximity significantly reduces transportation costs and the relevant purchase lead-time for our customers. Supplemented by our logistic and warehousing facilities and sales offices, we are able to provide customers in these regions with comprehensive value-added services in a timely manner, from supply chain management, order and shipment tracking, freight forwarding and customs handling, domestic stocking, “just-in-time” delivery and various after-sale services. We also staff engineers locally in China, North America and Europe who are able to deliver technical and maintenance support and perform on-site inspections promptly. Such services enhance customer experience and in turn, increase customer loyalty.

Our global production footprint with excellent customer support and services has strengthened our ties with existing customers and enables us to effectively explore more opportunities with new customers. This also presents a barrier-to-entry to competitors who would need to attract customers through global presence. We believe that our global footprint reduces the risks relating to cyclicity of regional economies. In 2018, revenue derived from our customers in the United States, Europe, China and other regions in Asia accounted for approximately 42.0%, 32.6%, 22.9% and 2.5% of our total revenue, respectively.

Diversified End-markets Endorsed by a Large Customer Base with Increasing Presence in High Growth Sectors

Our products are sold to diverse end-markets characterized by a large customer base, which represents opportunities for highly engineered precise component manufacturers. In 2018, we provided products and services to over 1,000 customers located in over 30 countries and regions worldwide. Many of our major customers operate diversified business units in different end-markets. Our principal end-markets include passenger cars, commercial vehicles, high horsepower engines, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boats and vehicles, medical and energy. This broad coverage reduces our exposure to demand fluctuations in any single customer or any particular end-market.

In addition, we strategically target end-markets that we believe have higher profitability and stronger growth potential while achieving a balanced coverage. For example, in recent years, we have expanded our presence in aerospace and commenced to produce parts and components for hydraulic systems, fluid systems, actuation systems, and engine parts for various airplane models including Airbus A320 Neo, Airbus A350 and Boeing 787. During the Track Record Period, our revenue derived from sales to the aerospace end-market increased from HK\$144.5 million in 2016 to HK\$281.9 million in 2018, representing a CAGR of 39.7%.

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On the other hand, we are actively expanding our offerings to selected new product categories within our existing end-markets, including components used in hybrid and full electric vehicles, such as components of turbochargers, fuel injection systems and certain structural parts of NEVs that are designed to improve fuel efficiency and meet higher environmental standards. We believe expansion into these end-markets and product types will allow for further revenue diversification and risk hedging, improve our profit margin and place us in a competitive position in end-markets with high growth potential.

Growing Wallet Share Driven by Integrated One-stop Solution Capabilities and Cross-selling Opportunities

We have established a vertically integrated business model, covering the precision component value chain. The breadth of our capabilities from casting to machining, surface treatment and finishing allows us to offer customized ready-to-use products and services to our customers thereby significantly simplifying our customers' supply chains.

On the other hand, we also offer comprehensive one-stop solutions throughout the entire product life cycle. We engage in customer collaboration as early as in prototype design and development stage and also provide tooling design and manufacturing services. Such value-added services play an integral and critical part in our customers' product development programs. Taking advantage of such early stage collaboration, we are able to deepen our customer relationship and collect feedback to improve our technologies at an early stage in order to secure purchase orders in the subsequent commercial production stage. Furthermore, our logistic and warehousing facilities and sales offices worldwide differentiate us from most of our competitors and capture the extra value throughout the value chain.

We have successfully increased our customers' wallet share by providing more products and services in various segments and end-markets. Typically, when our customers initially established business relationship with us, they sourced components in one single segment or for one single end-market from us. They gradually expanded the purchases to other segments and end-markets, thanks to their growing trust in us and our track record of delivering high precision and reliable products in time. For instance, some customers initially purchased raw casting components from us and they subsequently engaged us to further provide casting or machined components with surface treatment and assembling services. Furthermore, by leveraging our stable and strategic relationships with our customers, we have expanded our product offerings to customers with a wider variety of highly engineered products in different end-markets. For instance, we initially commenced our business relationship with one of our major customers in the medical end-market, and we have expanded sales to this customer in the transportation, energy and aerospace end-markets. Similarly, we expanded our sales to another major customer from high horsepower engine end-market only to construction equipment and hydraulic system end-market.

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We expect to deepen our relationship with major customers that have comprehensive end-market exposure and explore additional cooperation opportunities and replicate our successful model of expanding business relationships in various end-markets and providing more value-added services for other customers. We believe we are one of the few precision component manufacturers in the world that have established and benefited from an integrated business model and broad manufacturing capabilities.

Successful “Twin Growth Engines” Strategy Combining Organic Growth with Highly Synergetic Acquisitions

Historically, we have successfully implemented a “Twin Growth Engines” strategy to expand our business through both organic growth and strategic acquisitions. We started as a small local PRC casting and machining plant in 1998 and have continuously expanded and upgraded our production capacities and capabilities to tap into investment casting, precision machining, sand casting and surface treatment businesses in the following years. We have, through organic growth, expanded our production network to nine different plants covering investment casting, precision machining, sand casting and surface treatment functions globally as of December 31, 2018.

In addition to organic growth, in June 2012, we acquired Impro Taizhou which significantly expanded our sand casting capacity and capabilities, and in March 2013, we acquired BFG Group which reinforced our leading position in the investment casting segment and established our production presence in Europe. In June 2014, we acquired Shenhai Group, which expanded our surface treatment and electroplating capabilities and more importantly, enhanced our capabilities for providing our customers one-stop solutions. Subsequently in August 2014, through the acquisition of Cengiz Makina, a Turkish company specializing in the production of precision-machined parts, we expanded our precision machining capability and production scale and further penetrated in European market.

All of these acquisitions have created synergies, improved our technical capabilities, bolstered our market position in relevant segments and enhanced our competitiveness. We are able to access the customer base and promote cross-selling opportunities and engage skilled workforce of these acquired entities to continue to drive our business growth. Through the acquisition of Cengiz Makina, for example, we were able to maintain business relationships with certain major customers, to whom our sales of precision machining products have been expanded from just our Turkish plants to our other PRC plants. We have also successfully applied the advanced production techniques and know-how of our acquired entities to enhance the production efficiency and quality of our existing PRC production facilities. We have expanded our production capacity in Mexico, which has adopted the advanced precision machining know-how of Cengiz Makina and leveraged our established customer relationship in North America.

Each business segment we operate in is highly fragmented. According to the Roland Berger Report, in 2017, there were around 48,000 metal casting foundries worldwide and over 26,000 were located in China, most of which cannot supply globally or provide one-stop solutions across the industry value chain. On the other hand, the fragmented competitive

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landscape resulted in the limited annual production volume per foundry. This indicates significant potential industry consolidation opportunities. We believe we are well positioned to capitalize on this trend by leveraging our established leading market position, as well as the experience and proven model provided by our track record of successful acquisitions.

Seasoned and Visionary Management Team with Track Record of Superior Growth and Profitability

We have a visionary senior management team who aims to continue to strengthen our leading market position globally and capitalize on global trends in casting product development. They possess extensive experience in the casting and machining industries. In particular, Mr. LU, our founder and chairman, has over 30 years of operational and managerial experience in the casting and machining industries. In addition, our senior management team has an average of close to 18 years of experience in manufacturing industries and relevant operational experience.

Under the leadership of Mr. LU and our senior management team, we have successfully executed our “Twin Growth Engines” strategy and extended our business footprint from China to North America and Europe, and have established a leading position in the global precision component industry. We have also transformed ourselves from a small local PRC casting and machining plant to a company with sizable global operations that offers comprehensive one-stop solutions. Our senior management team comprises members from the PRC, Hong Kong, the United States, Germany and Turkey, each has a deep understanding of those overseas regional markets.

In addition, we had built a dedicated and experienced workforce comprising engineering staffs, sales force and production workers. We provide regular training to our staffs to help them improve managerial and technical skills. We also cultivate and promote our core corporate values of “Integrity & Credibility,” “Diligence & Unity,” “Pragmatism & Efficiency” and “Pursuit of Excellence & Innovation.” These core values form the foundation of our corporate culture and motivate our employees to maintain high standards and work ethics.

OUR STRATEGIES

Our business objective is to reinforce our market position as one of the world’s top precision component companies. To accomplish this objective, we plan to:

Continue to Focus on High-precision, High-complexity and Mission-critical Products and Provide “One-stop Solutions”

We will continue our proven strategy of developing and offering high-precision, high-complexity and mission-critical products, targeting customers demanding high-end products. Leveraging the outsourcing trend in the precision component industry where more

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and more global leading customers have been streamlining and consolidating their supply chains and outsourcing to one-stop solution providers, we believe our established integrated business model, production capacities, technical expertise and long-standing reputation have well positioned us to continue capturing this trend.

To achieve this strategy, firstly, we will continue to focus on in-house technical expertise improvements to design and develop products satisfying more stringent technical, precision and complexity requirements. Secondly, we will implement production capacity expansion plans. Thirdly, we will explore and identify more cross-selling opportunities, especially in those selected high-growth end-markets. And lastly, we also intend to continue to optimize our product offerings and enhance the quality of our customer support services so as to expand our customer base and further increase customer loyalty.

Deepen Relationship with Existing Major Customers and Develop New Opportunities with Other Global Industry Leading Customers

We plan to strengthen our relationships with existing major customers by deepening collaborations throughout the entire product lifespan. Guided by our customer-oriented product development strategy, we intend to offer a suite of solutions catering to customer needs, ranging from prototype design in early product development stage, commercial production, logistics and other supply chain support, to continuous research and development support of next generation products. Early involvement in customers' product design and development allows us to collect customer feedback so as to continuously improve product design and our production technology, position us better in securing commercial production orders in the subsequent stage, enhance quality control standards and achieve customer satisfaction. Thus, we are able to increase our share of wallet across different business segments of our existing customers.

We will also strive to actively develop new opportunities with other global industry leading customers. The precision component industry is generally fragmented which presents great growth potential to us as we believe that demand for sizable one-stop solutions providers that can serve globally is underserved. We will seek to strengthen the "Impro" brand name, which is critical to developing new customers. We believe we are well positioned to continue to capture growth opportunities in the precision component industry from our existing and prospective customers.

Continue Our "Twin Growth Engines" Strategy that Encompasses Both Organic Growth and Strategic Acquisitions

We expect to further implement our "Twin Growth Engines" strategy.

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To achieve future organic growth, we endeavor to enhance our presence in strategically targeted high-growth end-markets, such as aerospace and medical. We will continue to expand our product offerings and selectively seek expansion opportunities in other end-markets, geographic regions and new products. We will continue our production capacity expansion and upgrades to address the growing market demands.

In terms of strategic acquisitions, being another growth engine, we will explore and consider appropriate opportunities that can create synergies between the target companies and us and are in line with our growth strategy. We will maintain a disciplined approach to acquisitions and consider various selection criteria, with an aim to creating synergies between the acquired target and the rest of the Group post-acquisition. As such, we will consider the experience and skills of the management team, operation scale, technological capability, product portfolio, customer base, end-market exposures, valuation and estimated costs, as well as cultural fit when selecting acquisition targets.

We believe that our brand recognition, strong customer relationships, financial strength, manufacturing and technological expertise and business network will enable us to identify and secure appropriate acquisition opportunities in the future. We also believe that our proven track record of and experiences accumulated from past acquisitions will enable us to efficiently integrate the acquired business and achieve anticipated synergies.

As of the date of this prospectus, we have not identified any specific acquisition targets or entered into any binding agreements in relation to any potential acquisition.

Reinforce Our Existing Leading Position in Certain End-markets and Focus on Increasing Presence in Additional Selected Areas with Growth Prospect

We have achieved significant market presence in certain end-markets, such as passenger car, commercial vehicle, high horsepower engine and hydraulic equipment. We expect to reinforce our leading position in these end-markets by capturing new opportunities from existing customers, attracting and acquiring new customers through providing high-quality products and one-stop solutions. For instance, leveraging our integrated business model, strong technical expertise and established customer relationships, we are well positioned to capture the opportunities presented by the growing trend of light weight for both internal combustion engine vehicles and new energy vehicles, and ICE powertrain optimization in response to the increasing environmental concerns.

We also endeavor to increase our presence in selected high-growth end-markets, such as aerospace and medical. According to the Roland Berger Report, the medical segment is expected to be the strongest growth driver for investment casting market and is expected to grow at a CAGR of 8.6% from 2018 to 2023, and aerospace will continue to be the biggest end-market, accounting for over 39% of the total investment casting market in 2023. Our previous research and development efforts in these end-markets have accumulated significant expertise and strong customer relationship. For example, we have obtained AS 9100 and NADCAP certifications, each a key pre-requisite certification for aerospace customers, and have successfully expanded our product offerings to parts and components for hydraulic

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systems, fluid systems, actuation systems and engine parts for various airplane models including Airbus A320 Neo, Airbus A350 and Boeing 787. In order to increase our presence in the medical end-market, apart from further strengthening our relationship with existing customers in the medical end-market by securing new business orders and co-developing new products with them, we also endeavor to gain new customers by attending major trade shows for the medical industry and recruiting additional sales staff targeting the medical end-market. Furthermore, we also plan to increase our presence in the medical end-market through acquisition although no target has been identified as yet.

Continue to Invest in Research and Development to Optimize Production Processes and Improve Operational Efficiency

We are committed to further investing in research and development to optimize production processes, by improving engineering capability, debottlenecking our critical production processes, increasing the flexibility of our manufacturing system and minimizing scrap rate during production, so as to meet demands for low-volume and high-mix orders. We will also strive to increase the level of automation of our production facilities to cope with growing labor costs.

Furthermore, we will identify and capture market trends so as to reinforce our market leading position. For example, we plan to further invest in the development of additive manufacturing technologies to reduce our tooling costs, production lead time and expand into new product segments.

We also plan to continue to increase our operational efficiency. We are in the process of establishing a new enterprise resource planning system, or SAP HANA system, as well as developing our “Impro Operation System”. Our “Impro Operation System” is an integrated IT system which will further streamline and upgrade the procedures of our subsidiaries, enhance the integration between the SAP HANA system and the EDI and WMS systems, and improve our data analytical capabilities. The SAP HANA system and the “Impro Operation System” will enable us to better utilize our centralized data to implement overall production planning and cost control, and improve operational efficiency. Its stable and real-time data exchange will mitigate human error, while accurate information technology programming will also facilitate our immediate and constant identification of planning deficiencies. We will also promote the use of EDI system to our customers which enables us to realize real-time order, pricing and invoicing information exchange with customers, improving the accuracy and efficiency of order confirmation, invoicing procedures and demand forecast.

Enhance Our Global Footprint to Meet Customer Needs on a Global Basis

We intend to continue our long-term “Local-for-Local” strategy by gradually locating our facilities and service footprint close to our existing and potential customers. Since 2013, we have started venturing overseas by acquiring the BFG Group, which is engaged in investment casting and manufacturing in Germany and Czech Republic. We acquired Cengiz Makina and extended our footprint to Turkey in 2014 and in April 2017, our plant in Mexico commenced production. We will take advantage of our developed global operation platform with capabilities

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of production, customer services and warehousing in different locations, including China, North America, Luxembourg and Turkey amongst others, to provide more localized and responsive services to our customers. In particular, we have significantly increased our production capacities of our production facilities in Mexico and Turkey in 2018 while also increasing the production capacities of our PRC plants to meet the demand of our customers. In April 2019, we purchased two parcels of land in Mexico and we plan to construct a new industrial facility to house our existing precision machining business in Mexico as well as build sand casting plant and investment casting plant in the future.

We will strengthen internal coordination with regard to production, sales and customer services by analyzing centralized customer data and leveraging our global and collective knowledge of existing and prospective customers and their respective end-markets. We plan to further ensure that our customers' orders and requests are adequately served with consistent premium product quality, timely production and delivery, and superior customer support and services.

OUR VISION, MISSION, CORPORATE VALUES AND PHILOSOPHY

Our vision is “to be an enterprise truly valued by our customers, shareholders, employees, and the society at large.”

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

We base our corporate values on four pillars: “Integrity & Credibility,” “Diligence & Unity,” “Pragmatism & Efficiency,” and “Pursuit of Excellence & Innovation.” These corporate values guide and provide standards for our management and employees in serving our shareholders, fellow-employees, customers, suppliers and business partners.

We have also promoted a 7S management philosophy across our business operations, which is based on the widely accepted 5S workplace organization methodology, being Seiri (整理), Seiton (整頓), Seiso (清掃), Seiketsu (清潔) and Shitsuke (素養). We further expanded the 5S methodology to include Safety (安全) and Saving (節約). We believe this management philosophy enhances our corporate values, encourages the enterprise spirit of our employees and continuously improves our company's self-development.

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OUR PRODUCTS AND SERVICES

Our Products and Services

We have four business segments: investment casting, precision machining, sand casting and surface treatment. Investment casting has been our largest segment in terms of revenue contribution during the Track Record Period. The following table sets forth the revenue generated from our business segments and the percentages of our revenue attributable to sales in these segments for the years indicated:

| | For the year ended December 31, | | | | | |
|---------------------------|---|-------|-----------|-------|-----------|-------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % | Amount | % | Amount | % |
| | (HK\$ in thousands, except percentages) | | | | | |
| Revenue by segment | | | | | | |
| Investment casting..... | 1,151,868 | 45.2 | 1,333,139 | 43.7 | 1,581,166 | 42.2 |
| Precision machining..... | 713,759 | 28.0 | 953,087 | 31.3 | 1,215,210 | 32.4 |
| Sand casting | 325,745 | 12.8 | 429,858 | 14.1 | 601,842 | 16.0 |
| Surface treatment..... | 355,842 | 14.0 | 333,059 | 10.9 | 350,895 | 9.4 |
| | 2,547,214 | 100.0 | 3,049,143 | 100.0 | 3,749,113 | 100.0 |

We manufacture casting and precision-machined components from a broad range of metals, including stainless steel, carbon steel, alloy steel, iron, aluminum, copper, and high-temperature alloy with a wide variety of specifications, sizes and weight. Our surface treatment business includes zinc, nickel, cadmium, zinc-nickel, zinc-iron, tin-zinc, chrome electroplating, aluminum anodizing, and zinc flake coating for corrosion and wear resistance or decorative purposes.

Our sophisticated and flexible production capacities not only allow us to fulfill large volume purchases but also meet the demands for low-volume and high-mix orders.

Investment Casting Components

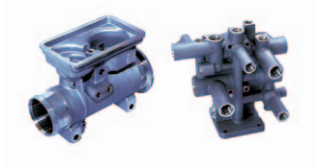
Investment casting is a metal forming process that normally involves using a wax pattern surrounded in a ceramic shell to form a ceramic mold. Once the ceramic shell is dry, the wax is melted out and the ceramic mold is formed. Molten metal is then poured into the ceramic mold to form a casting component. The ceramic mold is subsequently removed, and the casting components are created. Some investment castings require a secondary machining process after casting. Investment casting is usually used to produce parts and components in complex shape with high precision and surface requirement.

We particularly focus on high-precision, high-complexity and mission-critical casting component products. We manufacture investment casting components for sale to all of our

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major end-markets, including passenger car, commercial vehicle, high horsepower engine, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boat and vehicle, medical and energy. In 2016, 2017 and 2018, our investment casting segment accounted for 45.2%, 43.7% and 42.2%, respectively, of our total revenue.

Pictures and illustrations of functions of our selected investment casting components are presented below:



EGR housing and intake manifold for heavy-duty truck engine systems and construction equipment emission systems



EGR bypass housing for passenger car engine system



Diffuser for aerospace engine system



Gas detector housing in fire and gas safety systems

Precision-machined Components

Precision machining is a process that involves using CNC and other machines and tools to drill or shape metal components with highly precise specifications used in various finished products. Precision machining is performed on bar stocks and other formed materials sourced from global third-party suppliers.

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We manufacture precision-machined components for sale mainly to the passenger car, commercial vehicle, hydraulic equipment and aerospace and medical end-markets, with the focus on the high-end precision machining industry, meaning the production of precision machining products by machine tools of value over EUR500,000. In 2016, 2017 and 2018, our precision machining segment accounted for 28.0%, 31.3% and 32.4%, respectively, of our total revenue.

Pictures and illustrations of our selected precision-machined components are set forth below:



Spools for construction equipment and hydraulic systems



High-pressure connectors used in diesel engine injection systems



Components for surgical instruments



Hydraulic valve body for construction equipment

Sand Casting Components

Sand casting is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand, and molten metal is poured into the mold cavity for solidification. The sand shell is subsequently removed after the metal components cooled and formed. Certain sand casting components require a secondary machining process after casting. Sand casting is mainly used in the manufacturing of structural metal components.

We manufacture sand casting components mainly for sale to the high horsepower engine, construction equipment, passenger car and agricultural equipment end-markets. In 2016, 2017 and 2018, our sand casting segment accounted for 12.8%, 14.1% and 16.0%, respectively, of our total revenue.

Pictures and illustrations of our selected sand casting components are set forth below:



Cylinder block used in high horsepower engines for ships and power generators



Cylinder head for marine high horsepower engines



Brackets for high horsepower engines



Gear housing used for installing gears of locomotives

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Surface Treatment

We provide surface treatment services mainly through electroplating and, to a small extent, non-electrolytic coating. Electroplating is a process used to change the surface properties of a metal part by adding a metal coating onto its surface through the action of electric current. The metal part to be coated is first immersed in a salt solution that contains the metal to be deposited. The metallic ions of the electrolyte solution carry a positive charge and are attracted to the metal part which carries a negative charge. Our electroplating services can be broadly divided into functional electroplating process which improves the conductivity, wear resistance and corrosion resistance of the components and hence is critical to the functions of the components, and decorative electroplating, where the electroplating process is performed mainly for decorative purposes. We also provide non-electrolytic coating which involves the application of corrosion resistant materials and other functional materials to the surface of the objects to improve their corrosion resistance, wear resistance and decorative function.

We provide surface treatment services mainly to the passenger car, aerospace and hydraulic equipment end-markets. In 2016, 2017 and 2018, our surface treatment segment accounted for 14.0%, 10.9% and 9.4%, respectively, of our total revenue.

We significantly expanded our surface treatment business through our acquisition of Shenhai Group in June 2014, which not only enabled us to increase our surface treatment capacity and access a wider customer base but also further supplemented our one-stop solution offerings.

Pictures and illustrations of the selected products for which we provided surface treatment services are presented below:



Anodizing of components for aircraft hydraulic system



Zinc aluminum coating of components for automotive fasteners

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Chrome plating for automotive decorative components



Cadmium plating for aircraft structural components

Our End-Markets

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

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

| End-market | Business segments | Main products/services |
|--------------------------|---|---|
| Passenger car | Investment casting, precision machining, sand casting and surface treatment | Components for fuel system, EGR systems, turbo chargers, transmission systems and body systems; electroplating services for brake systems, fasteners, steering systems, emission systems, and decorative components |
| Commercial vehicle | Investment casting, precision machining, sand casting and surface treatment | Components for fuel systems, EGR systems, turbo chargers, transmission systems, and emission systems; electroplating services for components of brake systems, fasteners, steering systems, and decorative components |

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| End-market | Business segments | Main products/services |
|-------------------------------------|---|---|
| High horsepower engine ... | Investment casting, precision machining, sand casting and surface treatment | Components for fuel systems, engine blocks, cylinder heads, emission systems for distributed energy gas engines |
| Hydraulic equipment | Investment casting, precision machining, sand casting and surface treatment | Spools for hydraulic valves, pistons for hydraulic motors, sleeves for hydraulic motors, and hydraulic valve bodies; and electroplating services for spools |
| Aerospace | Investment casting, precision machining and surface treatment | Components for air and fuel systems, aircraft engine systems, hydraulic systems, flight control systems, environment control systems, landing control systems, and auxiliary power units; cadmium plating for aerospace structural parts, hard chrome plating for air and fuel systems and engine parts, anodizing and chemical film of components for fuel systems, engine systems, hydraulic systems and flight control systems |
| Construction equipment | Investment casting, precision machining, sand casting and surface treatment | Components for fuel systems, electric fuel injection systems, exhaust systems, and transmission systems |
| Agricultural equipment | Investment casting, precision machining, sand casting and surface treatment | Components for transmission systems, engine systems, and emission systems for combine-harvesters, seeders and tractors |
| Recreational boat and vehicle | Investment casting, precision machining, sand casting and surface treatment | Impellers, components for marine engines and steering systems, components for motorcycle brakes and transmission systems |

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| End-market | Business segments | Main products/services |
|---------------|---|--|
| Medical | Investment casting, precision machining, sand casting and surface treatment | Implants, components for surgical instruments, medical diagnosis equipment, biosystem equipment, prosthetics and patient handling equipment; anodizing and passivation, chrome plating of parts of surgical instrument |
| Energy | Investment casting, precision machining, sand casting and surface treatment | Components for detective systems and transmission systems for oil and gas application, transmission systems for wind turbine application; electroplating of superconducting strands for International Thermonuclear Experimental Reactor |

As our products and services include a wide range of components and parts which are widely applied to various end-markets, we consider the product life cycle of the end products for which we provided our products and services to be relevant for our general assessment of our future business prospects as we expect our customers to continue producing the relevant end products and utilizing our products and services throughout the relevant product life cycle. For example, automotive end products generally have a product life cycle of five to seven years, aerospace end products generally have a product life cycle of 15 to 30 years and products for industrial end-markets including high horsepower engines, hydraulic equipment, construction equipment and agricultural equipment generally have a product life cycle of 10 to 15 years. Furthermore, if the end products are upgraded during their product life cycle, given our research and development capability and also benefiting from early stage co-development of new products with our customers, we will be able to provide our products and services to capture such opportunities.

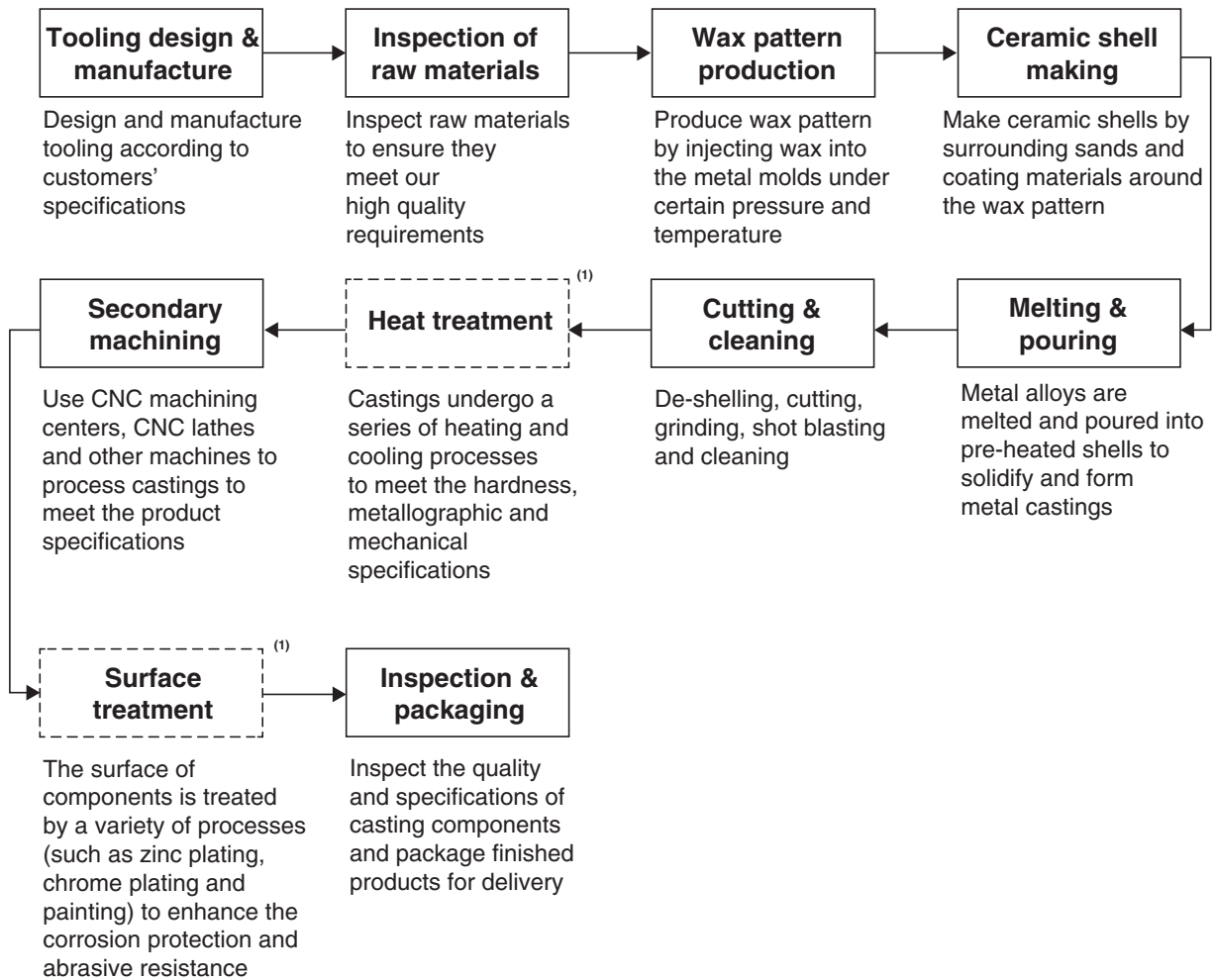
PRODUCTION

Manufacturing Process

The manufacturing processes and technologies used in each of our four business segments are described below.

Investment Casting

Investment casting involves a technical, multi-step process that uses ceramic molds in the manufacturing of metal components with more complex shapes, closer tolerances and finer surface finishes than components manufactured using other casting methods such as sand casting. Investment casting allows production of complex components with accuracy, repeatability, versatility and integrity using a variety of metals and high-performance alloys. The following flowchart illustrates the key steps of the production process for investment casting. Our investment casting batch production process for a typical purchase order generally takes approximately four to six weeks to complete.



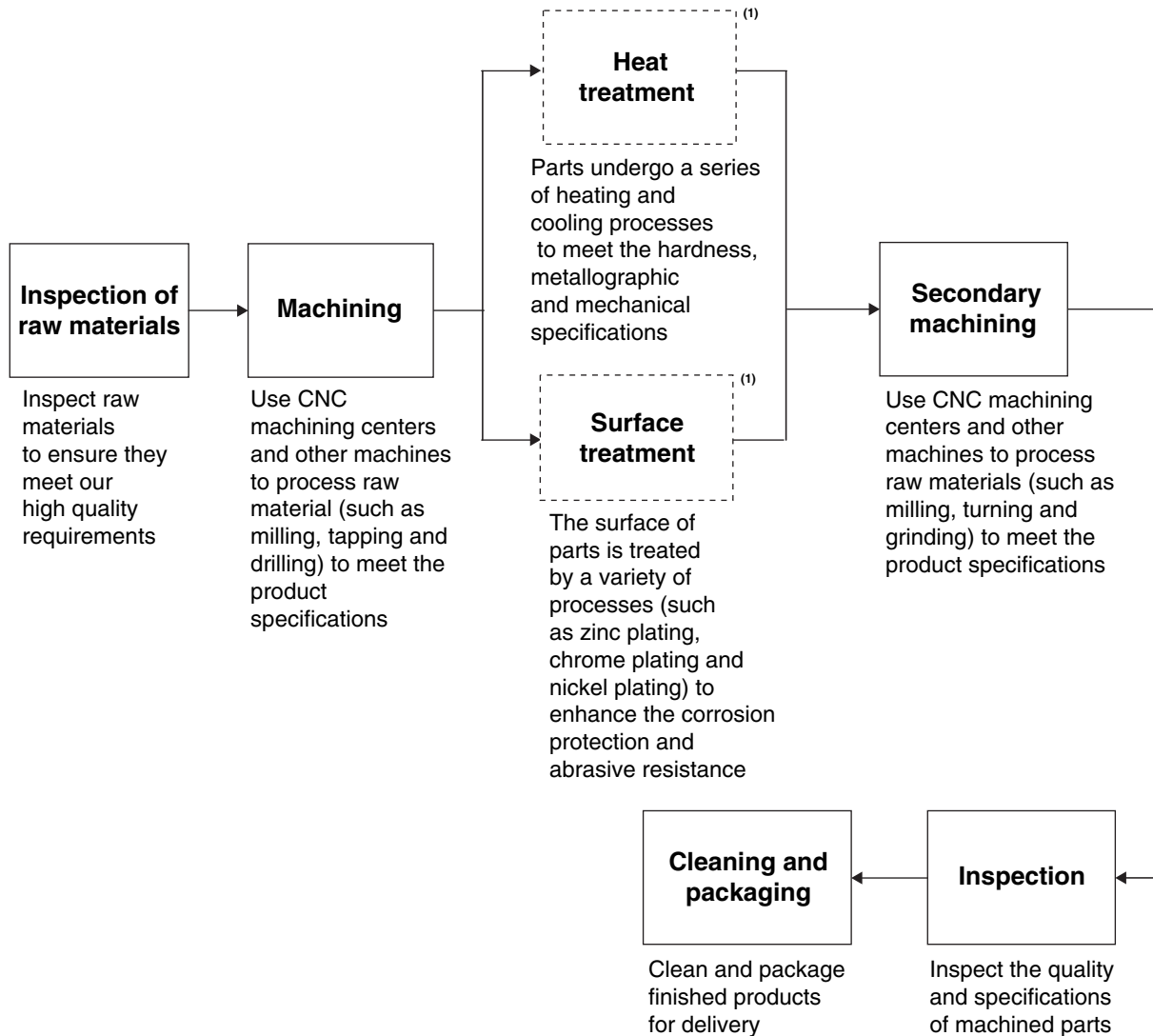
Note:

(1) Some (and not all) investment casting components require heat treatment and/or surface treatment.

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Precision Machining

Precision machining is a process where bar stocks and other formed materials are machined and customized into specific parts and shapes to meet the requirements of customers. The following flowchart illustrates the key steps of the production process for precision machining. Our precision machining batch production process for a typical purchase order generally takes approximately three to four weeks to complete.

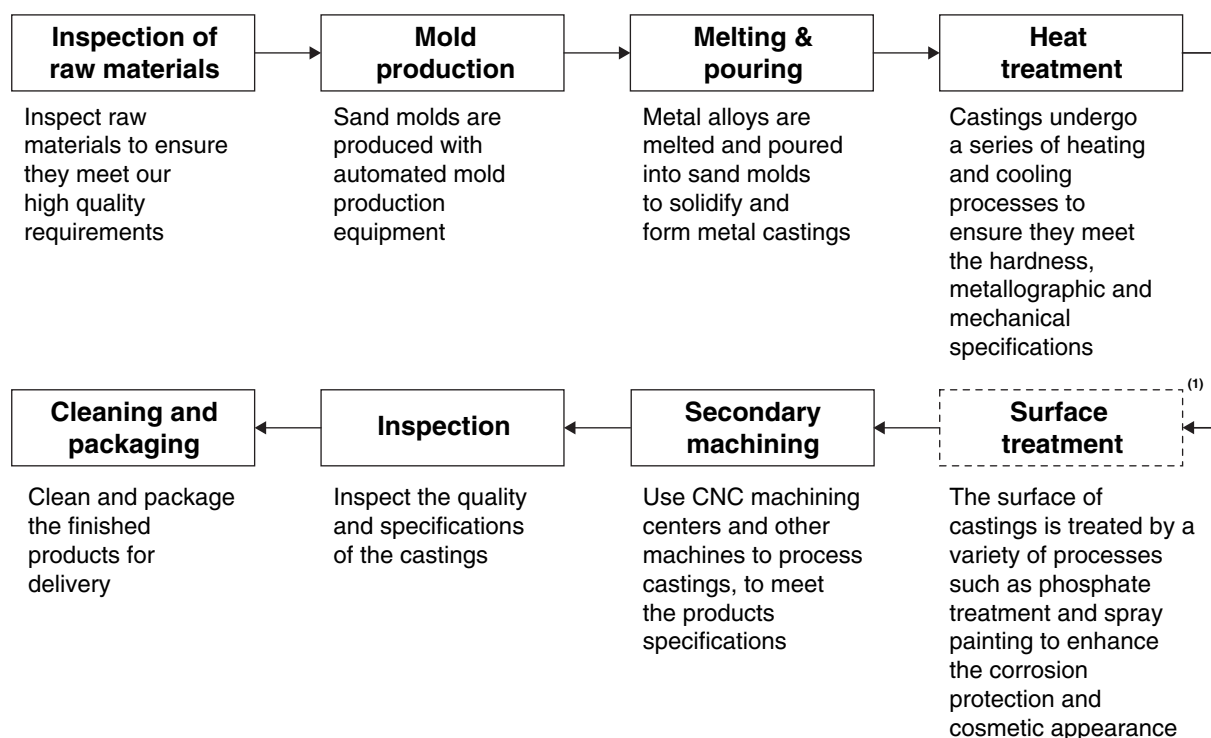


Note:

(1) Some (and not all) precision-machined components require heat treatment and/or surface treatment.

Sand Casting

Sand casting is a metal forming process in which a mold is first formed from a three-dimensional sand pattern and then molten metal is poured into the mold cavity to solidify. Sand casting is the technology generally used to make structural metal components. The following flowchart illustrates the key steps of the production process for sand casting. Our sand casting batch production process for a typical purchase order generally takes approximately three to five weeks to complete.



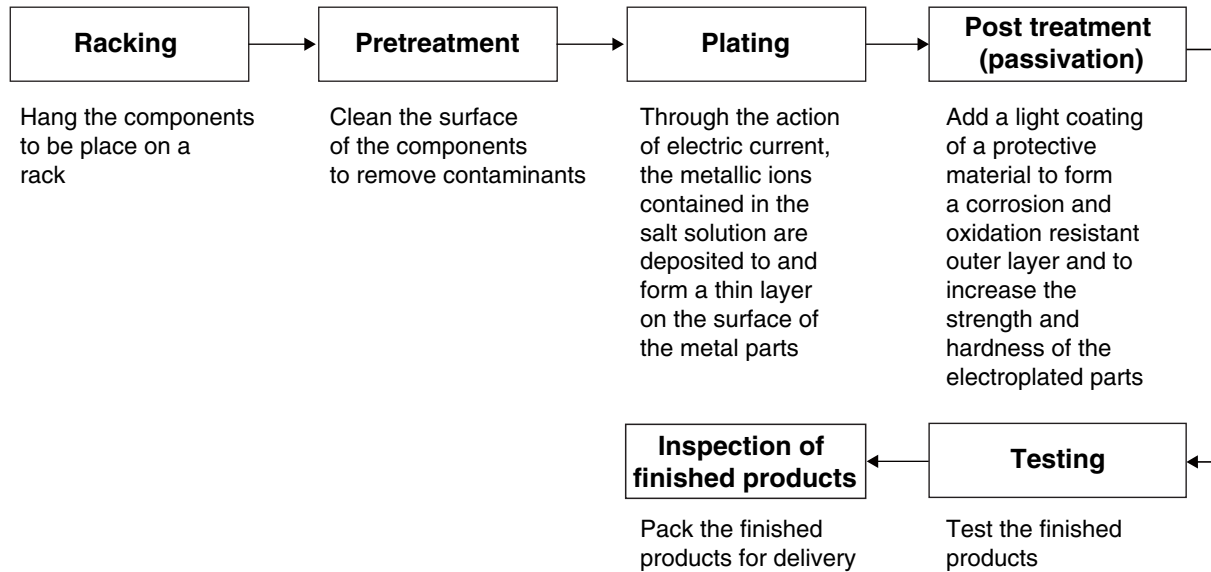
Note:

(1) Some (and not all) sand casting components require surface treatment.

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Surface Treatment

We mainly provide electroplating surface treatment service which involves the use of a plating process to change the surface properties of a metal part by adding a metal coating onto its surface through the action of electric current. The following flowchart illustrates the key steps of the electroplating process. Our surface treatment process for a typical service request generally takes approximately one week to complete.



Production Facilities

Overview

We currently have 15 production facilities, including nine in China, two in Turkey, two in Germany, one in the Czech Republic and one in Mexico. Our global presence enables us to serve customers efficiently and effectively in our target markets worldwide.

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The following table sets forth certain information relating to each of our production facilities:

| Plant | Location | Major functions | Year of Establishment/Year of Commercial Production under Our Control |
|------------------------------|-----------------------------------|---|--|
| Plant 1 | Wuxi, Jiangsu Province, China | Offices, tooling design and manufacturing, investment casting, secondary machining on casting components, heat treatment | 1998 ⁽¹⁾ |
| Plant 2 | Jiangyin, Jiangsu Province, China | Precision machining, heat treatment | 2000 |
| Plant 3 ⁽²⁾ | Wuxi, Jiangsu Province, China | Investment casting, secondary machining on casting components, precision machining, heat treatment, non-destructive testing | 2004 |
| Plant 4 | Jiangyin, Jiangsu Province, China | Surface treatment | 2005 |
| Plant 5 ⁽²⁾ | Wuxi, Jiangsu Province, China | Investment casting and secondary machinery on casting components | 2006 |
| Plant 6 | Yixing, Jiangsu Province, China | Investment casting, sand casting and secondary machining on casting components | 2006 |
| Plant 7 | Taizhou, Jiangsu Province, China | Sand casting | 2012 ⁽³⁾ |
| Plant 8 | Nantong, Jiangsu Province, China | Surface treatment | 2014 ⁽³⁾ |
| Plant 9 ⁽⁴⁾ | Yixing, Jiangsu Province, China | Aluminum vacuum casting | 2011 |
| CMTR-1 | Gebze, Kocaeli, Turkey | Precision machining | 2014 ⁽³⁾ |
| CMTR-2 | Gebze, Kocaeli, Turkey | Precision machining | Construction was substantially completed and estimated to commence operation in the second quarter of 2019 |

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| Plant | Location | Major functions | Year of Establishment/Year of Commercial Production under Our Control |
|------------|---------------------------------------|---------------------|--|
| BFGM | Moers, Niederrhein, Germany | Investment casting | 2013 ⁽³⁾ |
| BFGH..... | Hirzenhain, Hessen, Germany | Investment casting | 2013 ⁽³⁾ |
| BFGCZ..... | Libavské Údolí, the Czech Republic | Investment casting | 2013 ⁽³⁾ |
| IMMX | San Luis Potosi, Mexico | Precision machining | 2017 |

Notes:

- (1) Wuxi Viking acquired a significant interest in this plant through a series of share transfers and capital injections since 1998.
- (2) We relocated our Plant 5 and Plant 3 to a site adjacent to our existing Plant 1 in May 2015 and September 2016, respectively.
- (3) The year in which we acquired this plant.
- (4) Plant 9 is operated by Impross Impeller, which was our joint venture company until August 2017 when we increased our equity interest in Impross Impeller from 51% to 67% and it became our subsidiary.

Production Machinery and Equipment

Our production facilities are equipped with advanced machinery and equipment. The major machinery and equipment used at our production facilities include robotic ceramic shell making systems, vacuum melting and casting systems, CNC machining centers, CNC grinding machines, CNC lathes and surface treatment production lines which consist of electroplating baths and various testing equipment. Our advanced robotic ceramic shell making systems and other equipment as well as our techniques enable us to manufacture products with different types and sizes, which, in turn, allow us to manufacture precision components with a broad range of specifications, with complex geometries and from many types of major metallic raw materials. Our CNC machines enable us to produce high-precision components directly from raw metallic materials and process secondary machining treatments.

Based on our replacement schedule, the expected useful lives of our major machinery and equipment are approximately 5 to 15 years. As of the Latest Practicable Date, the average ages of our major machinery and equipment for investment casting, precision machining, sand casting and surface treatment segments were approximately 6 years, 7 years, 8 years and 6 years, respectively. We adopt the straight-line method over the estimated useful lives of the relevant equipment to calculate depreciation of our machinery and equipment.

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Most machinery and equipment are owned by us, while a small number of them are leased by us from third parties under operating or finance leases. Most of our production machinery and equipment are mainly purchased from equipment suppliers based in Germany, Switzerland, the United Kingdom, Japan, the United States, Korea, China and Taiwan. Our in-house technical and engineering staff also upgrade and re-configure the purchased machinery and equipment from time to time to meet our specific production needs. CMTR-1 has designed and developed an integrated automation system which enables it to further streamline manufacturing processes and improve production efficiency. The human-free system enables automated loading and unloading and also allows visual and dimensional controls, which significantly reduces headcounts and human errors. Additionally, the system captures and collects data of the relevant processes which enable us to make analysis and further improve efficiency. We expect to leverage the know-how and develop similar integrated automation systems for other plants.

We typically maintain multiple suppliers for our production machinery and equipment and do not rely on any single supplier. Since our inception, we have established stable long-term business relationship with these machinery and equipment suppliers to ensure our uninterrupted operation.

Our repair and maintenance team works with our equipment suppliers and third party service providers to repair and maintain our machinery and equipment on a regular basis to ensure good working condition, and will replace or upgrade such machinery and equipment from time to time as more advanced technologies become available. During the Track Record Period, we did not experience any material production disruption due to unexpected failure of production flows or equipment.

Our manufacturing typically complies with the quality standards and product specifications as required by our customers. We endeavor to manufacture and deliver high quality products, which requires us to constantly maintain the high quality and technical standards of our production processes. We have obtained the quality management certification of ISO 9001 for 10 of our plants and have also obtained certificates which are essential for specific end-markets, such as AS 9100 and NADCAP certificates for aerospace and ISO 13485 for medical industry. See “— Quality Management — Quality Management Certifications” for more details.

Production Technologies

Key technologies applied in the manufacturing of our products and provision of our surface treatment services include:

- Investment casting: tooling design and manufacturing, metal refining and crystallizing, heat treatment; machine programming, and cleanliness requirement;
- Precision machining: machining process, precision grinding, finishing, special deburring, and cleanliness requirement;

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- Sand casting: molding, metallurgy, finishing, and machining process; and
- Surface treatment: process design, testing, electro liquid mix and temperature mix.

Production Capacity, Production Volume and Utilization Rate

We measure the production capacity of our plants, the volume of the products and services we manufacture or provide and the measurement of utilization rate of our production capacity differs based on business segment. Production capacity and volume of investment casting, sand casting and surface treatment segments are measured by weight, in tonnes. With respect to precision machining, since the products have a large variety of shapes, sizes and weights, and our production lines are modified from time to time to accommodate such variety, it is not meaningful to measure production capacity or volume by weight. Rather, we measure production capacity and volume of precision-machined components by machine hours. We believe our calculation of the production capacity and the measurement of the utilization of our plants are in line with the industry norm.

In addition, multiple processes are involved in the manufacture of our products. Certain of these processes are deemed as “bottlenecks,” meaning that the capacity of such processes largely determines the output of the relevant product, and it is not possible for us to utilize the idle capacity of the non-bottleneck processes unless we increase the capacity of these bottleneck processes. Our bottleneck processes typically include melting and pouring for the investment casting segment; single and multi-spindle turning and milling machining for the precision machining segment; and melting for the sand casting segment. Accordingly, when we measure the capacity of a certain plant for investment casting, precision machining or sand casting, we typically rely on the capacity of the principal machinery in the relevant bottleneck processes. For surface treatment, since plating process is the only major process, the production capacity of a certain plant is the aggregate capacity of each plating process line in such plant.

In general, we take into account the working hours and working days that we consider normal in the region where our production facilities are located when calculating our production capacity. We also take into account effective working hours (by excluding machine set-up and reconfiguration time, time for meals, workers’ resting time, training time and work handover time, where appropriate) and manpower limitations in the calculation of our production capacity. Our calculation of production capacity is based on further assumptions as set out under the table below.

We endeavor to maintain an optimal utilization rate in order to benefit from economies of scale. On the other hand, we typically intentionally reserve a small portion of production capacity so as to promptly respond to unanticipated and urgent purchase orders. In addition, our manufacturing machinery and equipment can be efficiently re-configured so that we are able to quickly switch the production for different products.

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As of December 31, 2018, the aggregate annual production capacity of our production facilities was approximately 12,531 tonnes of investment casting components, 2,303 thousand machine hours for the processing of precision-machined components, 21,674 tonnes of sand casting components and 76,183 tonnes of surface treatment components. In 2018, our overall capacity utilization rates were 83.7% for investment casting, 78.1% for precision machining, 90.4% for sand casting and 64.0% for surface treatment.

The following table sets forth detailed production capacity, volume and utilization rate data by business segment and plant for the years indicated:

| | For the year ended December 31, | | |
|---|---------------------------------|-------|-------|
| | 2016 | 2017 | 2018 |
| Investment casting (in tonnes, except utilization rates)⁽¹⁾ | | | |
| Plant 1 | | | |
| Production capacity ⁽³⁾ | 3,600 | 4,000 | 4,307 |
| Production volume..... | 2,741 | 3,323 | 3,850 |
| Utilization rate ⁽⁴⁾ | 76.1% | 83.1% | 89.4% |
| Plant 3⁽²⁾ | | | |
| Production capacity ⁽³⁾ | 900 | 900 | 980 |
| Production volume..... | 476 | 495 | 519 |
| Utilization rate ⁽⁴⁾ | 52.9% | 55.0% | 53.0% |
| Plant 5⁽²⁾ | | | |
| Production capacity ⁽³⁾ | 2,700 | 3,200 | 3,572 |
| Production volume..... | 2,212 | 2,559 | 2,972 |
| Utilization rate ⁽⁴⁾ | 81.9% | 80.0% | 83.2% |
| Plant 6 | | | |
| Production capacity ⁽³⁾ | 2,200 | 2,200 | 2,419 |
| Production volume | 1,620 | 1,940 | 2,248 |
| Utilization rate ⁽⁴⁾ | 73.6% | 88.2% | 92.9% |
| BFGM | | | |
| Production capacity ⁽³⁾ | 244 | 244 | 244 |
| Production volume..... | 143 | 120 | 129 |
| Utilization rate ⁽⁴⁾ | 58.6% | 49.2% | 52.9% |

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| | For the year ended December 31, | | |
|--|---------------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| BFGH | | | |
| Production capacity ⁽³⁾ | 549 | 549 | 549 |
| Production volume..... | 482 | 424 | 501 |
| Utilization rate ⁽⁴⁾ | 87.8% | 77.2% | 91.3% |
| Plant 9⁽⁶⁾ | | | |
| Production capacity ⁽³⁾ | 230 | 324 | 460 |
| Production volume..... | 125 | 268 | 270 |
| Utilization rate ⁽⁴⁾ | 54.3% | 82.7% | 58.7% |
| Total | | | |
| Production capacity⁽³⁾ | 10,423 | 11,417 | 12,531 |
| Production volume | 7,799 | 9,129 | 10,489 |
| Utilization rate⁽⁴⁾ | 74.8% | 80.0% | 83.7% |
| Precision machining (in thousand machine hours, except utilization rates) | | | |
| Plant 2 | | | |
| Production capacity ⁽³⁾ | 631 | 819 | 926 |
| Production volume..... | 573 | 745 | 834 |
| Utilization rate ⁽⁴⁾ | 90.8% | 91.0% | 90.1% |
| CMTR-1 | | | |
| Production capacity ⁽³⁾ | 929 | 1,194 | 1,289 |
| Production volume..... | 681 | 841 | 916 |
| Utilization rate ⁽⁴⁾ | 73.3% | 70.4% | 71.1% |
| IMMX⁽⁵⁾ | | | |
| Production capacity ⁽³⁾ | — | 5 | 88 |
| Production volume..... | — | 2 | 49 |
| Utilization rate ⁽⁴⁾ | — | 40.0% | 55.7% |
| Total | | | |
| Production capacity⁽³⁾ | 1,560 | 2,018 | 2,303 |
| Production volume | 1,254 | 1,588 | 1,799 |
| Utilization rate⁽⁴⁾ | 80.4% | 78.7% | 78.1% |

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| | For the year ended December 31, | | |
|--|---------------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| Sand casting (in tonnes, except utilization rates) | | | |
| Plant 6 | | | |
| Production capacity ⁽³⁾ | 13,000 | 13,000 | 17,112 |
| Production volume | 9,980 | 10,800 | 15,500 |
| Utilization rate ⁽⁴⁾ | 76.8% | 83.1% | 90.6% |
| Plant 7 | | | |
| Production capacity ⁽³⁾ | 3,200 | 3,800 | 4,562 |
| Production volume | 2,480 | 3,350 | 4,100 |
| Utilization rate ⁽⁴⁾ | 77.5% | 88.2% | 89.9% |
| Total | | | |
| Production capacity⁽³⁾ | 16,200 | 16,800 | 21,674 |
| Production volume | 12,460 | 14,150 | 19,600 |
| Utilization rate⁽⁴⁾ | 76.9% | 84.2% | 90.4% |
| Surface treatment (in tonnes, except utilization rates) | | | |
| Plant 4 | | | |
| Production capacity ⁽³⁾ | 13,944 | 13,944 | 17,095 |
| Production volume | 8,976 | 9,269 | 12,414 |
| Utilization rate ⁽⁴⁾ | 64.4% | 66.5% | 72.6% |
| Plant 8 | | | |
| Production capacity ⁽³⁾ | 49,103 | 56,163 | 59,088 |
| Production volume | 33,117 | 34,849 | 36,311 |
| Utilization rate ⁽⁴⁾ | 67.4% | 62.0% | 61.5% |
| Total | | | |
| Production capacity⁽³⁾ | 63,047 | 70,107 | 76,183 |
| Production volume | 42,093 | 44,118 | 48,725 |
| Utilization rate⁽⁴⁾ | 66.8% | 62.9% | 64.0% |

Notes:

- (1) Plant in the Czech Republic is not included in the table above as it is only engaged in secondary machining and treatment services for our own investment casting products.
- (2) We relocated our Plant 5 and Plant 3 to a site adjacent to our existing Plant 1 in May 2015 and September 2016, respectively. Such relocation did not result in any significant production interruption.

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- (3) In calculating our production capacity, we have made certain assumptions and applied certain formulae as explained below.
- (i) For investment casting, precision machining and sand casting, production capacity represents the maximum possible volumes of products that could be manufactured/processed for the year. Therefore, total production capacity of a certain plant is calculated based on the production capacity of the bottleneck processes of such plant.
 - (ii) For precision machining, production capacity is measured by machine hours, which are calculated based on the aggregated maximum designed manufacturing hours of total bottleneck equipment and machines in use in each precision machining plant during the relevant year.
 - (iii) Each plant sets out its daily working hours, the number of shifts per day and the total working days, which consistently apply to such plant during the Track Record Period. Depending on the circumstances of each plant, the production per year of our production facilities in China is calculated on the basis of (i) six or six and a half hours per shift, (ii) one to three shifts per day, and (iii) 250 to 288 working days per year. For BFGM, the production capacity is calculated on the basis of six and a half hours per shift, two shifts per day and 240 working days per year. For BFGH, the production capacity is calculated on the basis of six and a half hours per shift, three shifts per day and 250 working days per year. For CMTR-1, the production capacity is calculated on the basis of six and a half hours per shift, three shifts per day and 290 working days per year.
 - (iv) Calculation of production capacity for investment casting, sand casting and surface treatment is also based on the estimated average weight of components that the relevant bottleneck process or each process line in each plant produced during the relevant year.
 - (v) Our production capacity is calculated based on the above assumptions and estimates. While we believe that such assumptions and estimates have been made taking into account the circumstances of our production facilities at different locations, such production capacity should not be relied upon as a precise measurement of our production capacity or our production volume during any particular historical period or as an accurate prediction of our production capacity or our production volume for a future period.
- (4) Utilization rate is calculated as actual production volume for the year divided by the production capacity for the year, as applicable.
- (5) IMMX commenced operation since April 2017 and the utilization rate is calculated based on the actual production capacity and actual production volume in 2017 and 2018.
- (6) Plant 9 is operated by Impross Impeller, which was our joint venture company until August 2017 when we increased our equity interest in Impross Impeller from 51% to 67% and it became our consolidated subsidiary company.

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During the Track Record Period, the capacity and utilization rates of our production facilities at various locations experienced fluctuations, details of which are described below.

Investment Casting

- Our overall investment casting production utilization rate in 2016 was relatively low. The strong sales to passenger car and aerospace end-markets which were mainly due to the mass production of new products like components for air and fuel systems, EGR systems and turbo chargers were largely offset by the decrease in demand in certain end-markets such as commercial vehicle and agricultural equipment resulting in the drop in sales to certain of our key customers. The relatively low utilization rate was also due to the production expansion in certain plants during the year.
- Since 2017, customer demands generally increased across many end-markets which is in-line with the sales increase in certain of our key customers. Also, due to the continuous increase in sales of components to passenger car and aerospace end-markets, total production volume increased by 17.1% in 2017 which far exceeded the capacity growth of 9.5% and therefore our overall investment casting production utilization rate increased to 80.0%.
- In 2018, the utilization rate increased to 83.7% as we increased production volume to meet increasing demand mainly from aerospace, commercial vehicle and agricultural equipment end-markets.
- The utilization rates of our Plant 3 during the Track Record Period were generally low primarily because we have invested heavily in building our capacity for the aerospace end-market which we believe have higher profitability and stronger growth potential. We anticipate further growth in the aerospace end-market in the next few years which will lead to an improvement of the utilization rate of our Plant 3.
- The utilization rates of BFGM in Germany during the Track Record Period were generally low primarily because the orders which BFGM focuses on are generally smaller batch (i.e. lower volume) and higher mix of products, which typically requires more time to re-configure the production lines for the particular purchase order from time to time, leading to a lower production volume and utilization rate in a given period.
- The utilization rate of our Plant 9 increased from 54.3% in 2016 to 82.7% in 2017 and decreased to 58.7% in 2018. The increase in 2017 was primarily due to the significant increase in demands, in particular from demand of turbochargers. The utilization rate dropped to 58.7% in 2018 due to the increase in production capacity and the drop in demand as a result of the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018.

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Precision Machining

- Although our sales of precision machining products increased substantially in 2017 mainly as a result of the strong demands from commercial vehicle and hydraulic equipment end-markets due to mass production of new products like components for fuel system, and also higher sales to existing hydraulic equipment components like spools for hydraulic valves, we also significantly increased our capacity to cope with the increased demand and thus, our overall precision machining production utilization rate dropped slightly in 2017, primarily due to the faster capacity expansions.
- In 2018, utilization rate decreased slightly to 78.1%, as the increase in demand mainly from passenger car, commercial vehicle, hydraulic equipment and aerospace end-markets was offset by our increased capacity.

Sand Casting

- Our overall sand casting production utilization rate was relatively low at 76.9% in 2016 which was in line with the soft customer demands particularly in high horsepower engine end-market.
- The utilization rate increased to 84.2% in 2017, primarily due to the significant increase in demand in our construction equipment and high horsepower engine end-markets which is consistent with the significant sales growth of one of our key customers.
- In 2018, the utilization rate further increased to 90.4%, driven by significant increase in demand from high horsepower engine and construction equipment end-markets.

Surface Treatment

- Our overall surface treatment production utilization rate was relatively low during the Track Record Period. The slightly higher utilization rate in 2016 was primarily due to increase in production volume related to passenger car end-market.
- The relatively low utilization rate in 2017 was primarily due to the lower sales to passenger car and energy end-markets mainly as a result of lower demand of some of our key customers as well as our capacity expansion in 2017.
- In 2018, the utilization rate slightly increased to 64.0%, as a result of higher growth in production volume than capacity as our sales to passenger car end-market increased modestly in 2018 compared to 2017.

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We strategically focus on products and services with higher precision and higher complexity, which generally have a higher selling price and contribute a higher margin in terms of each SKU. For example, as we expanded our sales to aerospace end-market in recent years, the proportion of products meeting more stringent technical standards and with greater added-value for this end-market of overall product portfolio increased. As a result, during the Track Record Period, the growth rate in our total revenue outpaced the increase in our overall production volume. We intend to continue this strategy and strive for developing and manufacturing such higher precision and higher complexity products in the future.

Our Capital Expenditure and Capacity Expansion Plans

In 2016, 2017 and 2018, we incurred capital expenditures for production expansion and upgrades in the amount of HK\$448.1 million, HK\$365.5 million and HK\$567.7 million, respectively. We expect to continue to invest in such production expansion and upgrades, and estimate that the amount of our capital expenditures will be approximately HK\$581.9 million and HK\$543.1 million in 2019 and 2020, respectively. The planned capital expenditure in 2019 will be funded by our internal resources as to HK\$355.7 million and by the net proceeds of the Global Offering as to HK\$226.2 million. The majority portion of our capital expenditures have been, and will continue to be, deployed for the purpose of our production capacity expansion. In particular, out of the planned capital expenditure of HK\$581.9 million in 2019, we plan to apply HK\$171.3 million, HK\$92.2 million, HK\$50.4 million and HK\$37.7 million to expand and upgrade our production capacity for our investment casting, precision machining, sand casting and surface treatment businesses, respectively and we plan to apply HK\$230.3 million for our new plants in Mexico. We plan to fund part of such capital expenditures to be incurred in the future by applying net proceeds from the Global Offering. See “Future Plans and Use of Proceeds — Use of Proceeds.” The remainder of such capital expenditures will be funded by our internal resources, equity or debt financings or a combination of them.

We have formulated capacity expansion plans, and intend to increase our production capacity primarily through debottlenecking relevant production processes and adding new machinery and equipment to supplement our existing production lines. Multiple processes are involved in the manufacture of our products. Certain of these processes are deemed as “bottlenecks”, meaning that the capacity of such processes largely determines the output of the relevant product and hence determines our production capacity. In order to expand our production capacity, we need to primarily increase the capacity of these bottleneck processes by purchasing the corresponding machinery and equipment for such processes as well as other ancillary machinery and equipment to complement such increase of capacity of the bottleneck processes and to satisfy any capacity needs of non-bottleneck processes as a result. The estimated investment amounts for each of our business segments set out below are determined based on the price of the equipment that we intend to purchase to achieve the corresponding increase in capacity. We are establishing a new production facility in Mexico and recruit more production employees as our Directors and senior management deem

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appropriate. Our management periodically review technology development and, market opportunities and discuss prospective products with our customers to formulate our capacity expansion strategy.

Our major production capacity expansion plans are described below. We are confident that there will be sufficient demand for the planned expansion in production capacity because our customers typically confirm their orders six months in advance and indicate their order plans even earlier. For details of the amount of sales order that we have confirmed since the end of the Track Record Period, please see “Summary — Recent Developments.” Our expansion plans have been formulated taking into account such information. As an illustration, the percentage increase in our revenue attributable to the investment casting, precision machining and sand casting segments in 2018 broadly resembles the percentage increase in production capacity of such segments in 2018. Furthermore, our key raw materials are metals, such as stainless steel, alloy steel and iron. In the past, we have not encountered any significant difficulties in sourcing raw materials for our expansion at market comparable price and our required timeframe, and in hiring experienced and technical personnel required for our expansion. Since our key raw materials are commodities that are readily available in domestic and overseas markets in large quantities, we do not anticipate any difficulty in purchasing such raw materials at market price. In addition, based on our past experience, we do not anticipate any major difficulties in hiring experienced and technical expert personnel to support our expansion. The purchase of machinery and equipment for the Group’s existing plants do not require government approvals or permits.

Investment Casting

The major bottleneck process for investment casting is melting and pouring and therefore we plan to purchase primarily melting furnace and related metallurgical equipment, as well as equipment for processes following melting and pouring and testing equipment. We currently plan to increase our investment casting capacity from the 12,531 tonnes per year to approximately 15,410 tonnes per year by the end of 2019, representing an increase of 23.0%, as we anticipate continuous growth in demand in passenger car, commercial vehicle and recreational boat and vehicle end-markets. We plan to implement such capacity expansion in our PRC plants.

To implement such expansion plan, our capital expenditures for 2019 will be up to HK\$171.3 million. The planned capital expenditures in 2019 will be funded by our internal resources as to HK\$131.5 million and by the net proceeds of the Global Offering as to HK\$39.8 million.

Precision Machining

The major bottleneck processes for precision machining are single and multi-spindle turning and milling machining and therefore we plan to purchase primarily turning and milling machine and related equipment. We currently plan to expand our precision machining capacity from the 2,303 thousand machine hours per year to approximately 2,589 thousand machine

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hours per year by the end of 2019, representing an increase of 12.4%, as we expect more orders from the passenger car, commercial vehicles and hydraulic equipment end-markets. We plan to implement such capacity expansion at our plants in China, Turkey and Mexico in the next two to three years.

We have substantially completed the construction of our CMTR-2 plant in Turkey, which is in close proximity to our CMTR-1 plant and will be principally used as a precision machining production facility. As of April 30, 2019, we have incurred approximately HK\$65.9 million for the construction of the CMTR-2 plant. We expect to commence production in the second quarter of 2019. It is expected that the production capacity of our CMTR-2 plant will be approximately 1,700 thousand machine hours for processing precision-machined components upon full utilization. The construction and commencement of operation of our CMTR-2 plant require certain approvals such as construction permit, building utilization permit and authorization of research and development activities proposed to be conducted at the plant. We have already obtained the construction permit and the legal advisors to the Company as to Turkish law confirm that they have not identified any material legal impediment that would prevent the Group from obtaining such other licenses, permits or authorizations. Besides addition of production capacity, the new plant is expected to establish a new Research and Development Center of Cengiz Makina to serve both our CMTR-1 and CMTR-2 plants. See “Business — Research and Development” for further details. We expect that the total amount to be incurred in connection with the establishment of the new Research and Development Center will be insignificant and is estimated at approximately HK\$6.0 million, which will be primarily funded by our internal resources. Upon the full utilization of CMTR-2, Cengiz Makina is expected to maximize synergies with existing CMTR-1 through the sharing of human resources, research and development capability and warehousing facilities.

To implement such expansion plan, our capital expenditures for 2019 will be up to HK\$92.2 million. The planned capital expenditures in 2019 will be funded by our internal resources as to HK\$46.5 million and by the net proceeds of the Global Offering as to HK\$45.7 million.

Sand Casting

The major bottleneck process for sand casting is melting and therefore we plan to purchase primarily melting furnace and related metallurgical equipment. We currently target to increase our sand casting capacity from the 21,674 tonnes per year to approximately 26,292 tonnes per year by the end of 2019, representing an increase of 21.3%, as we expect orders from high horsepower engine, passenger car, and medical end-markets will increase. Such expansion encompasses expanding the sand casting capacity of our PRC plants.

To implement such expansion plan, our capital expenditures for 2019 will be up to HK\$50.4 million. The planned capital expenditures in 2019 will be funded by our internal resources as to HK\$38.0 million and by the net proceeds of the Global Offering as to HK\$12.4 million.

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Surface Treatment

The major process for surface treatment is plating and therefore we plan to purchase primarily plating and anodizing equipment and ancillary equipment for environmental purpose. We currently plan to expand our capacity for surface treatment services from 76,183 tonnes per year to approximately 83,296 tonnes per year by the end of 2019, representing an increase of 9.3%, mainly through the expansion of the production capacity of our Plant 4. The surface treatment capacity expansion is due to the need to upgrade the existing production line to improve its automation capability and the need to introduce new production line for zinc flake coating due to new demands. Such production line is more environmentally friendly as it differs from traditional electroplating. We plan to increase our sales in existing end-markets, including passenger car, energy and aerospace end-markets.

To implement such expansion plan, our capital expenditures for 2019 will be up to HK\$37.7 million. The planned capital expenditures in 2019 will be funded by our internal resources as to HK\$22.2 million and by the net proceeds of the Global Offering as to HK\$15.5 million.

Mexico Plant

To further capture business opportunities in North America, we intend to expand our precision machining capacity in Mexico. Our Mexico plant, IMMX, only commenced operation in April 2017 and due to the fact that it takes time for IMMX to ramp up its operations, the utilization of this plant was relatively low in 2017 and 2018. For the year ended December 31, 2017 and 2018, we recorded sales of US\$0.9 million and US\$4.7 million, respectively, from our Mexico plant. As of the Latest Practicable Date, our Mexico plant had secured sales orders amounting to US\$10.0 million for the year ending December 31, 2019.

In January 2019, we entered into a real estate promise to purchase and sale agreement with Grupo Valoran, S.A. de C.V. ("**Grupo**"), a company incorporated in Mexico for the purchase of two parcels of land in San Luis Potosi, Mexico located within WTC2 Industrial Park, with an aggregate total surface area of 227,474 square meters, paying seller a total cash consideration of approximately US\$7.7 million, inclusive of the infrastructure development price. The land acquisition was completed on April 4, 2019 after satisfactory due diligence. After completion of the land acquisition, the Company plans to construct a new industrial facility to house the existing IMMX's precision machining business in Mexico and project to build later on a new sand casting plant to further expand our business in Mexico. The Company expects the construction and other preparation of the precision machining plant to take 12 to 24 months before commencement of production.

To implement such expansion plan, we intend to invest up to HK\$230.3 million in 2019, inclusive of the purchase consideration of two parcels of land in San Luis Potosi, Mexico. The planned capital expenditures in 2019 will be funded by our internal resources as to HK\$145.1 million and by the net proceeds of the Global Offering as to HK\$85.2 million.

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CUSTOMERS

Overview

A substantial majority of our sales are to international customers. We have built a large, diversified and stable customer base, including a number of global leaders in their respective industries with internationally recognized brand names. Such diversified customer base with strong reputation exposes us to minimized concentration risks. We have also established strong and long-standing business relationships with our major customers. We also actively develop new customers through various marketing activities. See “— Sales — Marketing and Promotion” for details. In 2018, we provided products and services to over 1,000 customers located in over 30 countries and regions worldwide.

Our close cooperation with customers, coupled with our strong manufacturing capabilities, has established our position as a supplier of choice to many of our customers. In 2016, 2017 and 2018, revenue from sales to our five largest customers was HK\$880.6 million, HK\$1,232.6 million and HK\$1,649.9 million, respectively, representing 34.6%, 40.4% and 44.0%, respectively, of our total revenue. For the same periods, revenue from sales to our single largest customer was HK\$316.5 million, HK\$461.9 million and HK\$518.7 million, respectively, representing 12.4%, 15.1% and 13.8%, respectively, of our total revenue. All of our five largest customers during the Track Record Period are Independent Third Parties. None of our Directors, their close associates or any Shareholders had any interest in any of our five largest customers during the Track Record Period. The table below sets forth certain information about some of our major customers (in alphabetical order):

| <u>Name of customers</u> | <u>Business segment</u> | <u>Number of years of business relationship with us as of December 31, 2018</u> |
|--------------------------|--|---|
| Benteler | Investment casting, precision machining and sand casting | 12 |
| Bosch | Investment casting and precision machining | 24 ⁽¹⁾ |
| Caterpillar | Investment casting, precision machining and sand casting | 16 |
| Cummins | Investment casting, precision machining and sand casting | 15 |
| Honeywell | Investment casting and precision machining | 12 |
| HUSCO | Investment casting, precision machining and sand casting | 18 |
| Modine | Investment casting | 15 |
| Parker-Hannifin | Investment casting and precision machining | 15 |

Note:

(1) Bosch has been a customer of Cengiz Makina since its inception.

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The tables below set forth the amounts of sales to our top five customers for each of the financial years ended December 31, 2016, 2017 and 2018 and their primary business.

Amounts of sales to our top five customers:

| Year ended December 31, | | | | | | | | | |
|-------------------------|----------|--|--------------------|----------|--|--------------------|----------|--|--------------------|
| 2016 | | | | 2017 | | | 2018 | | |
| Rank | Customer | Amount of sales (in thousands of HK\$) | % of total revenue | Customer | Amount of sales (in thousands of HK\$) | % of total revenue | Customer | Amount of sales (in thousands of HK\$) | % of total revenue |
| 1 | A | 316,483 | 12.4% | A | 461,858 | 15.1% | A | 518,745 | 13.8% |
| 2 | B | 194,222 | 7.6% | C | 288,124 | 9.4% | B | 462,842 | 12.3% |
| 3 | C | 183,397 | 7.2% | B | 239,655 | 7.9% | C | 343,666 | 9.2% |
| 4 | D | 111,481 | 4.4% | D | 158,413 | 5.2% | D | 202,495 | 5.4% |
| 5 | E | 75,062 | 2.9% | F | 84,597 | 2.8% | F | 122,123 | 3.3% |
| | | <u>880,645</u> | <u>34.6%</u> | | <u>1,232,647</u> | <u>40.4%</u> | | <u>1,649,871</u> | <u>44.0%</u> |

Primary business of top customers:

| Customer | Primary Business |
|----------|---|
| A | Automotives, industrial and consumer products |
| B | Diesel and natural gas engines |
| C | Construction and mining equipment |
| D | Automotives |
| E | Energy, aerospace, medical and transport |
| F | Industrial and aerospace |

We supply products and services to both domestic and overseas customers, mainly in the United States and Europe. During the Track Record Period, revenue derived from customers located in the United States accounted for approximately 41.1%, 41.1% and 42.0% of our total revenue in 2016, 2017 and 2018, respectively, while revenue derived from customers located in Europe accounted for approximately 34.6%, 34.4% and 32.6%, respectively. Over the same periods, revenue derived from customers located in the PRC accounted for approximately 22.0%, 21.9% and 22.9%, respectively, with the remaining portion from customers located in other regions in Asia.

During the Track Record Period, except that one of our top five customers was engaged by Cengiz Makina to perform surface and heat treatments on certain precision-machined parts that Cengiz Makina was contracted to process for the said customer, and hence was both a customer and a supplier of Cengiz Makina, none of our suppliers was a customer of us or vice versa. The amount paid by Cengiz Makina to such customer was insignificant.

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Supply Agreements

We enter into written supply agreements and/or separate blanket orders with our customers. Our supply agreements have a typical term ranging from one to ten years, which typically set forth the general rights and obligations of the supplier and the purchaser, the description of products to be manufactured and delivered, a pre-agreed base price range, and where applicable, the price adjustment mechanism which typically is subject to the fluctuation of raw material prices and/or foreign exchange rates. Under certain circumstances, in particular with customers in passenger car and commercial vehicle end-markets, we agree to undertake a cost reduction program to gradually reduce the prices of our products and services over the contract term in order to meet the relevant customers' cost reduction goals. During the Track Record Period, the Group agreed to undertake a cost reduction program with several customers. The aggregate reduction in revenue as a result of such cost reduction program for these customers are approximately HK\$14.3 million, HK\$18.4 million and HK\$22.4 million for the three years ended December 31, 2016, 2017 and 2018, respectively.

We are not the exclusive supplier to our major customers for our products and services. Our supply agreements generally do not contain any minimum purchase commitment. Our supply agreements are generally supplemented by purchase orders, which typically set forth detailed purchase amount or quantity, quality specifications, warranty, payment terms, unit price and delivery schedules.

We are generally obliged to keep confidential the commercial and technical information that we receive from our customers and not to utilize any proprietary technology belonging to our customers for purposes other than the production of the products ordered. Some of the supply agreements also contain express provisions that the customers will retain exclusive ownership to all intellectual property rights relating to the products and we are liable to indemnify the customers for breach of such obligations or third party intellectual property infringement claims against our customers. Furthermore, under some of the supply agreements, we also indemnify our customers for claims or losses suffered by our customers as a result of defective products.

Some customers also purchase from us by placing separate blanket orders, which generally summarize the purchase amount and delivery schedule to be achieved in the following certain period. These customers have different ordering patterns. The average purchase amount varies and intervals are generally ranging from about a few days to approximately one month, subject to their actual production plans.

We generally grant a credit term ranging from 15 days to 120 days after delivery or the issuance of invoices to our customers. During the Track Record Period, we did not experience any material default in payment by our customers. See "Financial Information — Quantitative and Qualitative Analysis of Market Risks — Credit Risk" for more details.

Please also refer to "— Pricing Policy" and "— Customer Services, Warranty and Product Replacement & Return Policy" below for more details about the arrangements with our customers under supply agreements.

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Pricing Policy

We generally adopt a cost-plus approach to determine the prices of our products and services, under which we add our desired gross profit margins, which are based on their estimated manufacturing, administrative and sales costs, after referring to the prevailing market prices of similar products. We will also take into account the projected sales volume, the specific technical complexity and commercial requirements, required delivery schedule as well as the creditability of the customers, which factors vary from customer to customer. Price ranges for our casting components, machined components and electroplating and related services are typically pre-agreed and provided in the relevant supply agreements.

Our product specifications vary significantly. As such, the unit price of our casting and machined components has a wide range, from under a few Hong Kong dollars to tens of thousands Hong Kong dollars. Due to the large difference in product specifications, the selling prices of our products or contract values vary significantly and the above-mentioned unit price range is for illustration purpose only.

Some of our supply agreements contain certain price adjustment mechanisms, which allow both parties to share the risks in case of a significant increase or decrease in raw material costs and raw material price fluctuations associated with a significant increase or decrease in currency exchange rates, thereby mitigating our exposure to such fluctuations in the raw material prices and currency exchange rates. During the Track Record Period, we did not experience any material dispute with our customers on the adjusted product price under the price adjustment provisions.

Details of such price adjustment mechanisms are set out below.

- Events triggering the price adjustments

We typically make adjustments if the prices of certain raw materials or the currency exchange rates relating to the raw material price increase or decrease beyond a certain threshold. Such percentage threshold differs from customer to customer and generally ranges from nil to 5% for currency exchange rate movements and from nil to 30% for raw materials price movements, as prescribed in the supply agreements with the relevant customers (“**Pre-agreed Range**”).

- Frequency of the price adjustment

Subject to the terms of relevant agreements, we typically make price adjustments on a quarterly, semi-annual or annual basis, or at times when customers place orders.

- Adjustment methods

When an event triggering the price adjustment occurs, the purchase price will be adjusted based on: (i) the entire increase or decrease resulting from raw material price or currency exchange rate movements is added or deducted from the product price, so that, effectively, the

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entire effect of such movements is borne by the customer; (ii) only such increase or decrease beyond the Pre-agreed Range is added or deducted from the product price, so that, effectively, we bear the effect of movements within the Pre-agreed Range and the customer bears the effect that goes beyond the Pre-agreed Range; or (iii) the effect of such increase or decrease is shared by us and the customer subject a pre-agreed formula provided in the relevant agreements.

Customer Services, Warranty, and Product Replacement & Return Policy

We are subject to contractual obligations to ensure the quality and specifications of our products to meet the customers' requirements. Our supply agreements typically contain the provision that we shall indemnify and hold harmless of our customers against third-parties' claims, demands, actions, suits, losses or damages arising out of such third-parties' claims resulting from our breach of the supply agreements, including but not limited to the costs of any recall campaigns declared mandatory by any government authority or court, except to the extent that claims only result from the relevant customer's willful misconduct or gross negligence. Under the supply agreements, we also generally undertake that we shall indemnify and hold harmless of our customers against third-parties' claims, demands, actions, suits, losses or damages to the extent that a defect in the manufacturing of our products, including defects in material and manufacturing processes or techniques, caused personal injury or loss of, destruction or damage to property. During the Track Record Period, neither we nor our customers encountered any of such material claims arising out of the defects of our products. Please also refer to "— Quality Management."

We provide customer services in accordance with the supply agreements. As part of customer services, we visit our customers periodically to seek their feedback on our products. The frequency of the visits depends on our product development status and the needs of customers. In response to the feedback, our research and development team seeks to improve our products to enhance customer satisfaction. In the event of customer complaints, we send our team on-site when necessary to work with our customers to fix the problem. For any claims during warranty periods, we accept replacement or return claims in accordance with our warranty policy.

Our customer services also include product replacement and return subject to our warranty policies, which vary based on different customers and products. We typically warrant that our products conform with all specifications, drawings or other technical requirements from the customers and are of good quality, are otherwise free of defects in material and workmanship under normal or foreseeable operating conditions or usage, and are fit for the specific purpose for which the customer intends to use them. Our warranty periods typically range from one year and a half to five years depending on the customer and the type of products provided. We may be subject to liability if our products are proven to be materially defective. For risks associated with the warranty we provide to our customers, see "Risk Factors — Risks Relating to Our Business and Our Industry — We may fail to maintain effective quality control and may be subject to product warranty and product liability claims which may have a material adverse effect on our reputation, business, results of operations,

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financial condition and prospects.” Currently, we endeavor to manage our product warranty risks by improving and maintaining our quality management system. See “— Quality Management.” We have purchased product liability insurance to further address our risk exposures to product warranty. See “— Insurance.”

We generally do not provide warranty for our electroplating and related surface treatment services. Our customers normally conduct inspections before accepting the electroplated components or other surface treatment services provided by us. If any defects are identified, we may remedy such defects.

We have a written replacement and return policy that sets forth the procedures for replacement and return claims by our customers. In general, our customers may make replacement or return claims after receipt of our products. However, we will accept such claims only if they are made during the warranty period and if the customer making the claim submits an inspection report in the form and with details on how the dimensions or characteristics of our products deviate from the specifications in the order, to our satisfaction. If our own or designated third-party inspection confirms that the product in question is materially defective, we will proceed to accept product return and/or make product replacement to the customer. Our replacement and return policy applies to all of our products. During the Track Record Period, we did not receive any material warranty claim or conduct any product recalls.

In 2016, 2017 and 2018, product returns amounted to HK\$18.3 million, HK\$17.2 million and HK\$15.0 million, respectively, representing 0.7%, 0.6% and 0.4% of our total revenue, respectively. Due to the low level of warranty claims and historical product replacements and returns, we generally do not make provisions for product liabilities. After completion of the Global Offering, we may in the future set aside reserves across our operations at different locations if our management decides that our exposure to warranty liabilities become significantly higher.

SALES

Overview

We sell our products primarily through internal sales forces. To enhance our marketing and sales capabilities, we have established nine sales offices in China, North America, Luxembourg, Turkey, Germany and Hong Kong, and have stationed internal, technically-focused sales staff in these sales offices. As of December 31, 2018, we had a dedicated team of 160 employees responsible for sales, marketing and customer services. Our sales, marketing and customer services staff is teamed up based on different end-markets to serve our customers accordingly. Many of these employees have engineering and business related backgrounds and technical and industrial knowledge.

In addition to direct sales, we also sell our products to customers introduced or solicited by certain third-party sales representatives, particularly in the United States and Europe, under commission-based agency services arrangements. See “— Third-party Sales

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Representatives” below for more details. In 2016, 2017 and 2018, 91.5%, 90.9% and 90.7%, respectively, of our total revenue was generated by our direct sales force while 8.5%, 9.1% and 9.3%, respectively, of our total revenue was generated by customers referred to us by third-party sales representatives.

Marketing and Promotion

We market and promote our brand, products and services primarily through:

Frequent communications with key customers. We regularly visit our key customers to understand their business needs, provide them with technical and design advice and collect their feedbacks on our products and services. To assist in the implementation of such marketing strategy, most of our sales offices are staffed with experienced mechanical engineers who regularly exchange technical information with our key customers. We also conduct customer satisfaction surveys every year, through which we collect customer feedback and gain deeper understanding of their needs so as to improve our product offerings and customer services. Moreover, we promote cross-selling opportunities during our communications with our customers and recommend products or services we consider suitable for such customers.

Attending trade fairs. We attend trade fairs to enhance our brand recognition among potential customers. Such trade fairs include casting industry trade fairs, trade fairs of our end-markets such as trade fairs of the passenger car and aerospace end-markets as well as cross-industry trade fairs, such as Metal and Metallurgy China and FSC Global Foundry Sourcing Conference for casting industry in China, Hannover Messe for industrial and automotive industry in Germany, Paris Air Show for aerospace industry in France, SAE World Congress & Exhibition and Offshore Technology Conference for automotive and energy industries, respectively, in North America.

Advertisements through internet and other media channels. We promote our products and services through internet and other media channels, including (i) email marketing, (ii) printing advertisements on company brochures, line cards, industry magazines and industry directories, (iii) updates on our own websites, which allow our existing and potential customers to access the most updated information on our products and services, and (iv) word-of-mouth promotion, including customers referrals and calls from our independent sales representatives. In addition, we are currently a member of the investment casting branch of China Foundry Association, Jiangsu Surface Engineering Association and German Steel and Metal Association. We expect to continue to leverage and enhance our influence in such industrial associations to approach and attract more potential customers.

Third-party Sales Representatives

During the Track Record Period, in addition to our internal sales force, we engaged third-party sales representative firms to solicit business for us, primarily in the United States and European markets. All of these sales representative firms are Independent Third Parties. In 2016, 2017 and 2018, we recorded HK\$5.7 million, HK\$7.5 million and HK\$8.4 million, respectively, as commission to these third-party sales representatives.

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The third-party sales representative firms do not purchase products from us, but rather, they introduce us to potential customers, and we directly negotiate the terms of and enter into the supply agreements with the customers. All the distribution, warehousing and after-sales services (including product replacements or returns) are also provided by us directly to the customers with no involvement of third-party sales representatives, except that such third-party sales representative firms may visit the relevant customers to collect their feedback on our products and services. We have entered into written sales representative agreements with these third-party sales representatives. These agreements are either for an initial term of six months and are automatically renewable thereafter on a yearly basis but terminable by either party upon 60 days' prior notice, or for indefinite term but terminable by either party upon three or six months' notice. Pursuant to these agreements, once the third-party sales representative firms bring in a new customer, they are entitled to receive commission fees, which are typically equivalent to a certain fixed percentages of the revenue generated from such customer from the time such customer relationship officially begins and continuing up to 180 days from the termination of the respective agreements. The commissions are payable after we receive payments for products from customers. We normally appoint the third-party sales representative firms as our exclusive representatives either in the designated territories where they can bring in new customers or for specified customers.

We select these third-party sales representative firms based on their reputation and their ability to solicit customers in the target end-markets and geographic regions. We generally maintain a stable business relationship with our third-party sales representative firms. During the Track Record Period and up to the Latest Practicable Date, we did not have any dispute with these third-party sales representatives.

WAREHOUSING

As of December 31, 2018, we maintain warehousing capacities in China, Turkey, North America and Luxembourg, among which, our Chicago warehouse is operated by our own employees and the rest are operated by third party logistics service providers engaged by us.

Our productions plant located in China, Turkey, Germany and Mexico also maintain certain warehousing capacities to meet the demand of our customers.

With these warehousing capacities, we are able to provide "just-in-time" delivery services to our customers in these regions, primarily aiming at reducing response times as well as flow times within production system, and to maintain safety stock for certain customers.

SEASONALITY

We operate largely on an order-by-order basis and our operations fluctuate mainly in response to the changing customer demands. Due to the diversification of our customer base and the end-markets they operate in, our operations are generally not subject to material seasonality.

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TRANSFER PRICING ARRANGEMENTS

Overview

During the Track Record Period, we adopt a transfer pricing policy which follows the “Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations” issued by the Organization for Economic Co-operation and Development (“OECD”), which provides guidance on the application of the “arm’s length principle” for the valuation, for tax purposes, of cross-border transactions between associated enterprises. Under the guidelines, transfer pricing for related party transactions is determined based on the function and risk profiles of respective group entities and with reference to the transfer pricing rules and regulations of the relevant jurisdictions.

Under our transfer pricing policy, our headquarters, Impro International, is responsible for the formulation of our Group’s strategies, marketing, business development, customer relationship management and export sales of a majority of our finished goods manufactured by our manufacturing entities in the PRC. For export sales, Impro International sells finished goods to Impro USA and Impro Europe for on-sales in their respective regions. Manufacturing entities (PRC subsidiaries, Cengiz Makina, the BFG Group and Impro Industries Mexico) are mainly responsible for production. Distribution entities (Impro USA and Impro Europe) are mainly engaged in the provision of marketing activities such as advertising and promotion, distribution of finished products, warehousing and after-sales services. During the Track Record Period, our major intra-group transactions included the following:

- (i) sales of finished goods from our manufacturing entities to our headquarters;
- (ii) sales of finished goods from our headquarters to distribution entities for on-sales to third party customers;
- (iii) supply of raw materials among manufacturing entities and our headquarters;
- (iv) sales of semi-finished goods or provision of surface treatment services among manufacturing entities; and
- (v) intra-group loans.

The arm’s length nature of the transfer pricing policy depends on the function and risk profiles of the respective group entities. Each entity should be remunerated with a profit which is in line with its respective economic values and contribution. The Group’s manufacturing entities which are engaged in manufacture and sales of finished goods, raw materials or semi-finished goods are broadly classified into two types, i.e. full-fledged manufacturers and limited risk manufacturers. The full-fledged manufacturers should be remunerated with a routine profit plus a residual profit / loss which is commensurate with their additional functions. The limited risk manufacturers should be remunerated with a routine profit. The distribution entities in the Group mainly perform limited risk distributor function and thus they should be remunerated with a routine profit. As the principal or headquarters of the Group, Impro

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International should earn the residual profits after compensating the manufacturing entities and distribution entities with returns for their respective functions performed. During the Track Record Period, the Group compensated the manufacturing entities and distribution entities with cost plus a mark-up.

In order to centralize our treasury function at our headquarters in Hong Kong and also due to cheaper financing available in Hong Kong, Impro International borrows funds from third party banks and provides intra-group loans to other members of our Group. For intra-group loans, our transfer pricing policies have been determined by referencing the relevant transfer pricing regulatory requirement and the advice from external tax advisors to ensure that the financing arrangements and the enforcement are in compliant with domestic tax and transfer pricing regulations.

On-going Compliance

We have adopted internal control measures to ensure ongoing compliance with the relevant tax laws and regulations in the jurisdictions in which we operate, including (i) preparing, retaining and providing transfer pricing documentations as requested by the transfer pricing legislations; (ii) monitoring the implementation of transfer pricing policy with respect to the intra-group transactions and conducting regular review on transfer pricing policy; (iii) meeting with external tax advisors on a regular basis and receiving updates in transfer pricing legislations; and (iv) engaging external tax advisors to review the transfer pricing arrangement based on the latest regulatory requirements and practices, assist in the preparation of transfer pricing documentations and review any related party disclosure forms.

We have engaged an independent tax advisor (the “Tax Consultant”) to perform a transfer pricing study to review and evaluate our Group’s transfer pricing arrangements in relation to our intra-group transactions during the Track Record Period. Based on the Tax Consultant’s study and analysis, Impro International can be characterized as a principal based on its function and risk profile so it should earn residual profits after compensating the manufacturing and distribution entities with returns for their functions performed. To assess the result of the major manufacturing entities and distribution entities in order to evaluate the arm’s length nature of the Group’s policy, the Tax Consultant has applied the Transactional Net Margin Method. The Tax Consultant considers that Total Cost Plus ratio and Berry Ratio / Operating Margin are the most appropriate profit level indicators for manufacturing entities and distribution entities, respectively. Our Directors (after considering advice from the Tax Consultant who has considered the OECD’s Transfer Pricing Guidelines and the implementation and enforcement of the transfer pricing regulations in respective jurisdictions in which we operate) consider that the transfer pricing outcomes are largely in line with value creation and the Group’s policy should be justifiable from the transfer pricing perspective. From a compliance perspective, our Directors (after considering advice from the Tax Consultant) confirm that our Group complies with the transfer pricing documentation requirements in the jurisdictions in which we operate.

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The Tax Consultant is not aware of any significant transfer pricing tax risk, and considers that we are in compliance with the applicable transfer pricing laws and regulations in the jurisdictions in which we operate. In addition, there was no transfer pricing dispute in the jurisdictions in which we operate that were required to be settled with the relevant tax authority during the Track Record Period and up to the Latest Practicable Date. Furthermore, the Tax Consultant did not recommend any adjustments or provisions in relation to our transfer pricing arrangements.

PROCUREMENT

Raw Materials and Suppliers

Overview

In 2016, 2017 and 2018, cost of raw materials and consumables used represented 31.6%, 35.3% and 36.6%, respectively, of our cost of sales. Metals, such as stainless steel, alloy steel, and iron, account for a majority of our raw material purchases. We also use materials in our production, such as zircon sand, zirconium powder, wax and packaging materials. All of our raw materials and consumables are readily available in the domestic and overseas markets.

In 2016, 2017 and 2018, purchases from our five largest suppliers were HK\$134.4 million, HK\$186.8 million and HK\$194.2 million, respectively, representing 7.6%, 9.0% and 7.6%, respectively, of our total cost of sales, and purchases from our single largest supplier were HK\$41.4 million, HK\$61.6 million and HK\$60.3 million, respectively, representing 2.3%, 3.0% and 2.4%, respectively, of our total cost of sales for the same periods. Our five largest suppliers during the Track Record Period include certain stainless steel, bar stocks and other formed materials and ceramic material suppliers in Germany and the PRC. We have maintained business relationships with our five largest suppliers for an average period of over 8 years. All of our five largest suppliers during the Track Record Period are Independent Third Parties. None of our Directors, their close associates or any Shareholders have any interest in any of our five largest suppliers during the Track Record Period.

Our raw materials are mainly procured from suppliers located in regions around our production facilities. We select suppliers based on their product and service quality, prices and the reliability of on-time delivery. Certain customers have a list of preferred suppliers for certain raw materials such as specialty alloys and steel used in manufacturing precision-machined components and aerospace quality castings, and we procure such raw materials from their designated suppliers or from suppliers selected from their pre-approved lists of suppliers. We usually ask our supplier candidates to provide samples for testing and our personnel from procurement department, quality control department and engineers from the relevant production department may jointly conduct on-site inspection on the candidates' production facility. During the three years ended December 31, 2018, the total amount of purchases attributable to these designated suppliers are HK\$68.4 million, HK\$105.4 million and HK\$114.6 million, respectively, representing approximately 3.8%, 5.1% and 4.5% of our

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total cost of sales in the corresponding year, respectively. The prices of the raw materials purchased from such designated suppliers are comparable to the prices charged by other similar suppliers and therefore the impact of purchasing raw materials from the designated suppliers on our gross profit margin is immaterial.

To minimize the risk of reliance on any single supplier and to maximize our bargaining power, we generally maintain at least two suppliers for any principal raw material. We constantly monitor the quality of our suppliers and perform evaluation every one or two years based on their production capacity, product and service quality, ability to timely deliver and prices, including transportation costs. We believe we are able to optimize our raw material supply base by continuously developing and qualifying additional suppliers. During the Track Record Period, we did not experience any shortage or delay in the supply of our raw materials.

We adopt prudent procurement policies, and generally procure raw materials based on our projected volumes of sales to customers. Some customers provide us with purchase forecasts on a regular basis in advance of product delivery, enabling us to assess our raw material needs more accurately.

We endeavor to achieve economies of scale and manage price fluctuations in raw material procurement. We have implemented centralized negotiations of the prices of major raw materials, including stainless steel, certain carbon steel and iron across our subsidiaries, which have allowed us to leverage our operational scale to obtain more favorable raw material prices. Meanwhile, we closely monitor the market conditions, such as the prices of our major metallic materials so as to decide on the appropriate timing for purchasing such materials, in addition to comparing the prices from several suppliers so as to procure the best raw material supply at the lowest available cost.

We generally purchase raw materials based on spot contracts and do not enter into long-term procurement agreements with suppliers. These spot contracts set out the specifications, quantity, price, time of delivery and method of payment of the raw materials purchased by us. For certain consumable material contracts, we enter into one-year contracts with the suppliers. These contracts set out the specifications of the consumable materials, prices, payment terms, methods of delivery and product quality. The payment terms under these agreements differ, ranging from 100% prepayment to payment within 90 days after the receipt of invoices, subject to factors such as market supply and demand, price trend, our bargaining power and size of orders.

The suppliers shall deliver the goods to our designated plants and bear the transportation fees. If there is any defect in the quality of the raw materials or if the raw materials do not conform to the specifications contained in our orders, we are permitted to continue to use the raw materials and deduct a portion of the purchase prices upon the suppliers' consent, or return the raw materials to the suppliers. We will only continue to use the raw materials that do not conform to our specifications if we believe that using such raw materials will not affect the quality of our products. The parties also agree that the suppliers' liability for the raw materials purchased by us shall extend to our customers.

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We do not believe that the price fluctuations of raw materials during the Track Record Period had a material impact on our financial position. We estimate that a 5% increase or decrease in the raw material prices in 2018 would result in our net profit after tax in 2018 decreasing or increasing by 9.5% assuming that all other variables held constant.

Electricity, Natural Gas and Water

Electricity, natural gas and water are the primary utilities used in our production process. We purchase electricity, natural gas and water from the public utility companies of the places where our production facilities locate. We did not experience any serious shortage or limitation on supply of public utilities during the Track Record Period.

SUBCONTRACTORS

To better manage our production cost and complement our production capability and capacity, we subcontract part of our production process, principally non-core and relatively simple processes, to a number of subcontractors in China, Germany and Turkey. These subcontractors are Independent Third Parties. Subcontracting helps us reduce capital expenditures, control production costs hence the cost-effectiveness of our products, especially with regard to a small number of specialized products such as certain aerospace products that require salt bath and nitriding treatment. In 2016, 2017 and 2018, our total subcontracting fees amounted to HK\$125.6 million, HK\$129.7 million and HK\$190.9 million, respectively, which represented 7.1%, 6.3% and 7.5%, respectively, of our total cost of sales in such years.

We monitor the quality of our subcontractors by firstly applying a stringent selection process. Subcontractors are selected based on their experience, quality of work, prices, reliability of on-time delivery, past performances and reputation in the industry. We typically require our subcontractors to enter into our standard written agreements with a term of one year. We confirm the detailed subcontracting production requirements through purchase order based on the actual production needs. The relevant plant of our Group engaging the subcontractor is responsible for monitoring the quality of the subcontractor based on a set of internal procedures. Subcontracting fees payable to each subcontractor are negotiated on an arm's length basis. The credit terms granted by the subcontractors typically range from approximately 30 to 90 days after receipt of invoice. We typically will cover damages to our customers arising from any defective products delivered by our subcontractors, and then we will have a right of recourse against these subcontractors under our subcontracting agreements. Accordingly, the subcontractors are ultimately liable for any damage to our customers arising from defective products delivered by them. We manage the quality of the products processed by the subcontractors according to the standards of our relevant quality management systems. See “— Quality Management” for details about our quality management systems. During the Track Record Period, we did not experience any material product quality incident with our subcontractors. We believe that, if necessary, we can identify and engage substitute subcontractors without material difficulty.

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INVENTORIES

Our inventories consist of raw materials, work in progress and finished products. In 2016, 2017 and 2018, our average inventory turnover days were 115, 108, 105 days, respectively. See “Financial Information — Selected Items in the Consolidated Statements of Financial Position — Inventories.”

We implement inventory control management in order to avoid under- or over-stocking. Our manufacturing activities are largely order-oriented and therefore, we are generally not exposed to significant over-stocking risk. Based on on-going actual production and sales activities, we adjust our raw material procurement according to our production process, taking into account lead time required for each type of raw materials, so as to minimize and maintain our inventory of raw materials at an appropriate level.

All raw material inventories we stock are for production and not for resale or any other purposes. We seek to maintain our raw materials inventory at a level sufficient to ensure that no interruption is caused to our production. We closely monitor the market conditions such as the prices of our major metallic materials. Our raw material inventory is generally maintained at a level up to about three months’ consumption, and we constantly monitor, review and evaluate our inventory level to ensure smooth supply of raw materials for production as well as minimize over-stock. Our finished products inventory holding period ranges from 6 to 14 weeks, including the time required for maritime transportation, so as to ensure that we are able to timely deliver the products to customers. Since certain regional customers located in China or Europe are generally served by our local production plants, inventory level of these plants is relatively lower. In addition, our surface treatment services maintain a limited level of raw material inventory and do not maintain finished goods inventory. During the Track Record Period, we did not experience any material shortage in inventory.

QUALITY MANAGEMENT

Overview

To ensure the quality of our products, we have established and maintained stringent quality management and assurance standards as well as inspection procedures at each critical step of our production process. These standards and procedures are documented in our quality management manuals. To ensure compliance with these standards and procedures, we maintain policies requiring that each of our quality management personnel is properly trained before being staffed to and during their service in our quality management department. For certain end-markets, such as automotive and aerospace, which are subject to comprehensive international industrial standards, we periodically review and update our internal quality standards and production in-progress requirements against the newly released industrial standards from time to time, to ensure that our products for such industries are in compliance with the latest requirements. We did not experience any material product quality problem during the Track Record Period.

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As of December 31, 2018, our quality management team comprised of 870 staffs, including 79 certified internal auditors for quality management system, 14 nationally certified specialists for dimensional measurement, 27 nationally certified specialists for chemical and mechanical property inspections, and 19 specialists with internationally recognized certifications for non-destructive testing. The managers in our quality management department have an average of over 10 years of experience in quality management or production in casting or machining related companies. In addition, the qualifications of senior engineers, engineers and assistant-engineers require relevant educational backgrounds and working experiences. As part of our quality management measures, we continue to improve the technical skills of our employees through training workshops and dedicated quality skills related training programs.

In addition, we have installed automatic inspectors, advanced measurement and testing equipment at our production facilities to ensure that our quality management and inspection capability satisfy our customers' quality requirement for high-precision, high-complexity and mission-critical products.

Non-destructive Testing, or NDT, Methods

To reinforce our strong quality control and management capability and to meet the specific requirements of certain customers in industries such as aerospace, we maintain a team of employees who have obtained NDT Level III certifications, the highest level of such certification, in each of the three NDT methods, namely magnetic particle inspection, fluorescence penetration inspection and radiography tests. The NDT Level III certifications were accredited and issued by qualified institutes, including the National Aerospace NDT Board of China, the UK National Aerospace NDT Board and the PRC General Administration of Quality Supervision, Inspection and Quarantine. These NDT Level III certified personnel have also passed the corresponding internal NDT related certification and approval procedures by certain of our customers.

Quality Management Procedures

Our quality management procedures primarily consist of the following:

Raw material procurement and inspection. We have formulated stringent supplier selection criteria based on product safety, quality, delivery and cost, and will only procure from our qualified suppliers. We have established detailed acceptance inspection and examination standards based on various technical requirements for each raw material. Our employees are required to follow these standards when conducting acceptance inspections to ensure the quality of the raw materials meet our requirements before they can be used for production.

Process control. We have implemented various quality management measures in each critical stage of our production process.

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We prepare product control plans for each product to be manufactured, which specify the applicable quality management measures in detail. For special processes such as heat treatment and welding, we design and establish process control inspections based on the relevant characteristics and technical specifications of such process. We periodically review and evaluate the stability and conformity of these processes. All such processes will also be submitted to the relevant customers for approval before the production. For certain products which require special processes, our internal material laboratories and NDT laboratories will perform physicochemical properties testing and NDT according to the relevant product drawings and specifications.

For other general production processes, we typically perform first piece inspections, process inspections/controls, and final inspections to ensure that the quality of our products meets quality standards and technical specifications before they are shipped to customers.

- First piece inspection: each employee who first operates the production lines shall conduct first piece inspection during the course of daily shift changes, tooling changes, product changes and jig changes by following the relevant product control plans. Mass production may only proceed after the product has met the quality requirements under first piece inspection.
- In-process inspection/control: during the production process, operators are required to strictly follow the relevant procedural and quality requirements. Our in-progress quality inspectors will conduct periodical sampling inspections pursuant to our control plans to verify the technical specifications during the process. For certain critical processes or key product features, operators and inspectors are required to establish statistical process control charts, a methodology for measuring and controlling quality by plotting real-time production data on a graph with pre-determined control limits.
- Final inspection: before delivering the products to our customers, we conduct a final visual inspection for cosmetic issues, a functional check and a critical dimensional inspection before washing and packing the products. We also ensure the shipping documents are complete and correct.

Quality Management Certifications

As a result of our continuous quality management efforts, our quality management system has been accredited with various quality management certifications. Most of these certifications are subject to a periodical review, or a renewal due to the change of standards of the issuing authorities. Some of our existing or potential customers, such as customers in the aerospace industry, have internal requirement for developing business with suppliers that are accredited with these certifications. As a result, if we fail to renew one or more of these certifications, we may lose these customers or our sales to these customers may decrease. We may also be unable to develop business relationship with potential customers who require or

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prefer their suppliers to hold these certifications. See “Risk Factors — Risks Relating to Our Business and Our Industry — We are required to obtain and maintain approvals, permits, licenses and certifications, including industry-specific quality management certifications, for our operations, procedures of which could be costly and time consuming. Any loss of such permits, licenses and/or certifications, could adversely affect our business, financial condition, results of operations and prospects.”

We obtained a number of quality management certifications, including but not limited to the ISO 9001, IATF 16949, AS 9100, ISO 13485, ISO 14001, NADCAP, PED, TPG and BS OHSAS 18001 certifications, all of which are crucial for our operations. We currently hold seven NADCAP certifications for six different production processes, including non-destructive testing, heat treatment, material testing, welding, chemical processing and non-conventional machining.

The following table sets forth a list of the certifications held by our various subsidiaries as of the Latest Practicable Date and their expiry dates. They are typically granted for a period of two to three years, subject to periodical review for renewal.

| Certification | Plant or Subsidiary | Expiry Date |
|-------------------------|---------------------|--------------------|
| ISO 9001..... | • Plant 1 | August 16, 2021 |
| | • Plant 2 | September 20, 2021 |
| | • Plant 3 | July 7, 2020 |
| | • Plant 4 | September 7, 2021 |
| | • Plant 5 | August 16, 2021 |
| | • Plant 6 | October 16, 2021 |
| | • Plant 7 | September 24, 2021 |
| | • Plant 8 | December 13, 2019 |
| | • BFGM | January 9, 2020 |
| | • CMTR-1 | October 5, 2021 |
| IATF 16949 (automotive) | • Plant 1 | August 16, 2021 |
| | • Plant 2 | September 20, 2021 |
| | • Plant 4 | September 7, 2021 |
| | • Plant 5 | August 16, 2021 |
| | • Plant 6 | October 16, 2021 |
| | • Plant 7 | September 24, 2021 |
| | • Plant 8 | January 4, 2021 |
| | • Plant 9 | September 28, 2021 |
| | • BFGH | November 23, 2021 |
| | • CMTR-1 | October 5, 2021 |

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| Certification | Plant or Subsidiary | Expiry Date |
|---|--|--|
| AS 9100 (aerospace) | <ul style="list-style-type: none"> • Plant 3 • Plant 4 • Plant 8 • BFGM | July 7, 2020 July 7, 2020 December 13, 2019 February 13, 2022 |
| ISO 13485 (medical) | <ul style="list-style-type: none"> • Plant 3 • Plant 4 | February 14, 2022 February 14, 2022 |
| BS OHSAS 18001 (health and safety) | <ul style="list-style-type: none"> • CMTR-1 | June 9, 2019 ^{Note} |
| NADCAP (on special process) (aerospace) | <ul style="list-style-type: none"> • Plant 3 (for welding, non-destructive testing, materials testing, heat treating, chemical processing, and non-conventional machining) • Plant 8 (for chemical processing) | July 31, 2019 — January 31, 2021 July 31, 2019 |
| PED 4.3 and AD WO | <ul style="list-style-type: none"> • Plant 1 • Plant 3 • Plant 5 • BFGM | July 14, 2020 August 2021 July 14, 2020 December 2019 |
| TPG — Heat Treatment | <ul style="list-style-type: none"> • Plant 6 | July 31, 2019 |
| TPG — casting process (transportation and power generation) | <ul style="list-style-type: none"> • Plant 6 | July 31, 2020 |
| ABS/BV/CCS/DNV/KR/LR/NK/RINA/RS (marine) ... | <ul style="list-style-type: none"> • Plant 6 | September 1, 2019 — December 12, 2023 |
| ISO 50001 | <ul style="list-style-type: none"> • BFGM • BFGH | December 18, 2020 September 7, 2020 |

Note: Application for renewal of certification in progress. There is no impediment to renew the certification.

RESEARCH AND DEVELOPMENT

Production of high-precision components deploys a series of complex technologies and technical know-how used in product development, product process engineering, tooling design and fabrication, raw material special smelting and component surface treatment. During Track Record Period, we have invested significant resources in research and development. As of the Latest Practicable Date, we were the registered owner of 297 patents in China, of which 75 were invention patents, also refer to “— Intellectual Property” below for more details.

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We own a series of advanced technologies and technical know-how. In particular, we believe our production techniques for high-precision components used in the aerospace and medical end-markets are leading technologies in China's casting industry, and our surface treatment technology for certain nuclear power components has a leading position in the world.

Our subsidiary in Turkey, Cengiz Makina, has established the Research and Development Center which was approved as an official Research and Development Center by the Turkish government in December 2014, representing an endorsement of the high research and development capability of Cengiz Makina and having enabled Cengiz Makina to increase its collaborations with universities and to obtain eligible government incentives, such as certain preferential tax treatments and tax exemptions. During the Track Record Period, the Research and Development Center had entered into a number of collaborative arrangements with universities in Turkey mainly in connection with costs and quality improvements for automation systems and other new product developments providing for visual and dimensional controls and automated loading and unloading systems to decrease manual operations and human errors. We also plan to merge this Research and Development Center into a new Research and Development Center of Cengiz Makina, which has been completed in December 2018 and is expected to be operational in the second quarter of 2019. It will have a gross floor area of approximately 1,660 square metres and will provide space for laboratories, assembly spaces and offices. We plan to hire experienced technicians to run the laboratories upon the commencement of the operations of the Research and Development Center. We believe that our advanced technologies and technical know-how have provided us with a competitive edge.

As we manufacture customized products, we have adopted an order-oriented research and development strategy. We frequently meet with customers to understand their product development plans and identify potential cooperation opportunities, and provide ongoing engineering support to customers to help them optimize their product designs. In particular, we actively participate in our customers' product development, and work closely with customers from the initial stage of customers' product design and development, such as prototype development, to after-sale services. We also design and develop investment casting tooling in-house thereby significantly reducing product development cycle time. Prototype manufacturing generally require strong engineering design and production and high quality control capabilities of a manufacturer so that the manufacturer can rapidly react to a customer's demand within a short period of time.

We may from time to time collaborate with third party universities and research institutions to jointly develop certain technologies required for production.

As of December 31, 2018, we had a total of 572 engineering staffs located in China, Germany, Turkey, the United States and Mexico. These engineering staffs are in charge of product development and provide after-sale services to customers. A majority of these engineering staffs possess a Bachelor's degree or above. These engineering staffs have an

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average of approximately eight years of experience in casting or machining related industries. Leveraging their knowledge, skills and industry experience, we have been successful in developing new products that meet the demands of broad end-markets and timely and effectively serving customers' technical needs.

We capitalize our prepaid costs that are attributable to specific product development projects and record them as deferred expenses if they fulfill certain conditions as prescribed by the applicable accounting policies. Such costs capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads attributable to specific projects developed for respective customers over a period of time, and deferred expenses are stated at cost less accumulated amortization and impairment losses. In 2016, 2017 and 2018, such prepaid costs capitalized by us and recorded as deferred expenses amounted to HK\$80.7 million, HK\$77.7 million and HK\$76.1 million, respectively, and related amortization expense of deferred expenses were HK\$60.6 million, HK\$71.1 million and HK\$86.0 million, respectively. See “Financial Information — Critical Accounting Policies and Estimates — Deferred Expenses.”

Research and development costs not capitalized are recorded as research and development expenses in the period in which they are incurred. In 2016, 2017 and 2018, we also incurred research and development expenses of HK\$56.8 million, HK\$79.0 million and HK\$101.8 million, respectively. During the same periods, total amortization of deferred expenses and research and development expenses were HK\$117.4 million, HK\$150.1 million and HK\$187.8 million, accounting for 4.6%, 4.9% and 5.0% of our total revenue, respectively.

INTELLECTUAL PROPERTY

Certain key patents, trade secrets or know-how related to our production, sales and marketing are important to our business and competitive position. We rely on a combination of patent and trade secret laws and confidentiality and non-compete agreements with our employees to protect these intellectual property rights, trade secrets and know-how. Our material trademarks are registered in a number of countries, including China, the United States, Switzerland, Europe, Hong Kong and Turkey. As of the Latest Practicable Date, we owned 297 patents in China, of which 75 were invention patents, and had 93 pending patent applications in China. As of the same date, we had 32 registered trademarks in China. Our invention patents are valid for 20 years since the date of grant. Generally, the registered trademarks and other patent rights we own are valid for ten years since the date of grant, and the trademarks are renewable prior to the expiration of such validity period. As of the Latest Practicable Date, we were also the registered holder of 55 domain names that are material to our business, including www.improrecision.com. We currently plan to maintain all of our registered domain names. Further information is set forth in Appendix IV — “Statutory and General Information — B. Further Information About the Business of Our Group — 2. Intellectual Property.”

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, we had not experienced any infringement on our intellectual property rights by third parties.

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We are committed to protecting the intellectual property rights and other proprietary rights of our customers and have implemented strict procedures to protect customers' intellectual property rights and to maintain the confidentiality of customers' information, especially their product designs. These procedures include: (i) no unauthorized personnel is allowed to enter certain restricted areas in the plants where confidential information is retained; (ii) each employee is required to properly retain confidential information; (iii) any access to, usage or dissemination of confidential information is subject to certain procedures; and (iv) no document or media containing confidential information is permitted to be taken out of the plant without authorization. Any employee of our Group in violation of these procedures is subject to monetary and other penalties. Each customer of our Group is assigned a customer code and the product and order information of such customer is managed by a designated team at our company. The product and order information of each customer is kept strictly confidential.

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, there had been no third-party intellectual property claims against us, neither had we been involved in any legal proceedings concerning infringement on any third parties' intellectual property rights.

OUR INFORMATION TECHNOLOGY SYSTEMS

We believe that robust and reliable information technology systems are essential to sustain our competitive edge in our global operations. As such, we continuously invest in the development, upgrade and integration of our information technology systems. We successively launched our office automation, or OA system, enterprise resource planning, or SAP ERP system, electronic data interchange, or EDI system, and warehouse management system, or WMS, from 2010 to 2013. We are in the process of establishing a new enterprise resource planning system, or SAP HANA system, as well as developing our "Impro Operation System". Our "Impro Operation System" is an integrated IT system which will further streamline and upgrade the procedures of our subsidiaries, enhance the integration between the SAP HANA system and the EDI and WMS systems, and improve our data analytical capabilities. The SAP HANA system and the "Impro Operation System" will enable us to streamline our global operations by offering standardized procedures, improving operating efficiency, reducing operational expenses, as well as enhancing risk control capabilities.

Our group-wide SAP ERP system covers most of our major operating processes across all of our production plants, from supply chain management, production workflow, quality control, to finance and human resource management. Leveraging this centralized system, we are able to generate and analyze extensive operational data swiftly which could facilitate us in decision-making process so as to improve our sales and production efficiency, and in turn, our profitability.

Our OA system enables our online approval mechanism and provides a transparent environment for data-sharing function among all entities of our Group. Supported by the SAP ERP system, our OA system allows us to timely and accurately archive and monitor our operational and financial performance data and our employees are able to access the system anytime, anywhere with internet connection.

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Our EDI system which realizes real-time order, pricing and invoicing information connection and interexchange with certain customers' information technology systems, has been embedded with our SAP ERP system, thus improving the accuracy and efficiency in order confirmation, invoicing procedures and demand forecasting.

Our WMS system serves as a powerful tool for us to manage raw materials, semi-finished and finished goods. It streamlines batch management, barcoding and order tracking functions.

We intend to continue to improve and streamline our information technology systems among each of our subsidiaries, especially those newly acquired or newly built production plants. We also expect to further enhance our data mining and analytical capacity in order to better leverage our valuable customer resources.

COMPETITION

We operate in a highly competitive industry and face competition in each of our business segments. Because of our broad range of product and service offerings and comprehensive development and production capabilities, we compete with different manufacturers in different product and service areas and different end-markets. In general, we compete with our competitors in the following areas: product quality, product development capabilities, production capacity, pricing and the span of one-stop solutions offerings. However, we believe there are significant barriers to enter all of our business segments as customers normally only choose to work with suppliers who meet their stringent qualification requirements in addition to various industry specific certification requirements. Please also refer to "Industry Overview" section for more details about the overall competitive landscape of precision component industry.

Investment Casting

The global investment casting market is fragmented with a large number of players. We primarily compete with international leading investment casting manufacturers which focus on high value-added products. We also face increasing competition from PRC domestic investment casting manufacturers, nevertheless, currently few domestic competitors are able to supply globally or to provide one-stop solutions. We believe few of our competitors in investment casting segment have the tooling design and manufacturing as well as the heat treatment and surface treatment capabilities as we do.

The investment casting industry is labor, capital and technology intensive. Therefore, we believe it is difficult for new and potential competitors to enter this industry if they are not able to obtain substantial capital, recruit and train skilled workers at reasonable costs or obtain necessary technologies and certifications, especially certain industry-specific certifications for end-markets such as aerospace and medical.

Precision Machining

The global precision machining market is highly fragmented and dominated by small and medium enterprises which focus on certain end-markets and/or product segments. Our precision machining products mainly include high value-added components to be used for the hydraulic equipment, passenger car, commercial vehicle and aerospace end-markets.

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Therefore, we mainly face competition from precision machining manufacturers globally specializing in such end-markets. In addition, due to the anticipated increasing outsourcing trend in this industry from developing countries to China, we expect to experience more pressure from PRC domestic peers, especially those which have the capability to provide one-stop solutions. However, we believe few of our competitors in precision machining segment have the capability to provide heat treatment and surface treatment services.

We believe the key barriers-to-entry for high-end precision machining industry, meaning the production of precision machining products by machine tools of value over EUR500,000, are cost management, quality management and manufacturing know-how, which require a significant period of time to accumulate.

Sand Casting

The sand casting industry is highly fragmented. However, the complex high performance iron sand casting market, which we primarily focus, is quite concentrated and is dominated by a few top players. As the production of high-end sand casting products require significant technical capabilities, advanced quality certifications which take substantial time and costs, stable supply of raw materials as well as certain level of production base that can accommodate high switching costs, in addition to well-developed customer networks or sales channels, our competitors for this high-end segment are mainly located in Germany or the United States, which may have more experience and more established customer networks than us. Therefore, we compete against these producers on cost efficiency, capabilities in adapting to new technologies and upgrading equipment and abilities to produce high-end products.

The sand casting industry is also labor, capital and technology-intensive. We therefore believe it is difficult for new and potential competitors to enter this industry at least with respect to the market for high-end products if they are not able to obtain substantial capital, recruit skilled workers at reasonable costs and obtain necessary technologies.

Surface Treatment

As surface treatment does not create products on its own, manufacturers of the end products on which surface treatments are performed typically select surface treatment service providers that are close to their manufacturing facilities. As a result, we generally compete with surface treatment service providers in the PRC in the regions where our Plant 4 and Plant 8 are located. However, there are few domestic surface treatment service providers that have the capability to provide the broad service offerings and industry coverage as we do.

Worldwide, overseas competitors exist but few can reach the size comparable to us.

The key barriers to enter the surface treatment industry include government approval requirements, increasingly stringent environmental protection standards, environmental protection and quality control and management know-how. As the PRC government invests significant resources to control pollution and emission, it is increasingly difficult for potential new market entrants to enter the surface treatment industry or for the existing market participants to meet the high emission standards to survive. The techniques and quality

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management know-how applied in surface treatment production processes also need to be developed and accumulated over time. We believe our ability to offer a total solution and a combination of quality, price, reliability, service, technology and delivery, enables us to maintain a competitive advantage over our competitors.

For each of our business segments, we face challenges to upgrading our production technologies and capacities while at the same time managing our costs and maintaining our competitive pricing. Also, we face competition from existing and potential competitors domestically and internationally who are able to operate production facilities at low costs and sell products at aggressive prices. See “Risk Factors — Risks Relating to Our Business and Our Industry — We may not compete effectively and may lose our leading market position.”

EMPLOYEES

Overview

We believe that attracting, developing and maintaining a highly motivated and skilled workforce is critical to our success. As of December 31, 2016, 2017 and 2018, we had 6,100, 6,749 and 7,482 full-time employees. The following tables set forth breakdowns of our employees by function and by geographic location as of December 31, 2018:

| By function: | Number of employees | % of total employees |
|---|--------------------------------|---------------------------------|
| Production | 5,494 | 73.4% |
| Quality management | 870 | 11.6% |
| Research and development, engineering | 572 | 7.6% |
| Legal, finance, human resources and administration ⁽¹⁾ | 386 | 5.2% |
| Sales, marketing, customer services and shipping | 160 | 2.1% |
| | <u>7,482</u> | <u>100.0%</u> |
| | | |
| By geographic location: | Number of employees | % of total employees |
| China | 6,368 | 85.1% |
| Turkey | 761 | 10.2% |
| Germany | 174 | 2.3% |
| Mexico..... | 105 | 1.4% |
| The Czech Republic | 32 | 0.4% |
| United States..... | 24 | 0.3% |
| Hong Kong | 13 | 0.2% |
| Luxembourg | 5 | 0.1% |
| | <u>7,482</u> | <u>100.0%</u> |

Note:

(1) Including management team members.

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We contribute housing funds and pay social security contributions for our PRC employees, including medical insurance, unemployment insurance, retirement insurance, industrial injury insurance and maternity insurance in compliance with the applicable PRC national and local regulations. Our monthly housing fund payments and social security contribution for PRC employees are determined as certain percentages of monthly salaries of the employees. These percentages are subject to adjustment from time to time by the local government authorities.

We also pay social insurance contributions for our employees in Germany, including medical insurance, social security contributions, unemployment insurance and nursing care insurance, in compliance with the applicable German laws and regulations. Our monthly social insurance contributions in Germany are determined as certain percentages of monthly salaries of the employees. These percentages are subject to adjustments from time to time by the local government authorities of Germany.

We make social security (including retirement pension insurance, sickness insurance, state unemployment insurance) and health insurance contributions to the state social and health insurance system and pay premiums under the liability insurance for any work-related injury and occupational illness for our employees in the Czech Republic. Those contributions and premiums are determined as certain percentage of monthly salaries of the employees.

We also make contributions to the social security premium, unemployment insurance and private health insurance for our employees in Turkey in accordance with applicable Turkish laws and regulations.

We encourage our current employees to apply for open positions in other departments that fit their interests and expertise to maximize the potential of each employee. We currently recruit our employees primarily through on-campus recruiting programs, posting advertisements on recruitment websites and our own website and engaging headhunting firms.

We recruit employees based on a number of factors, including the educational background and work experience of the employees and our expansion strategy and job vacancies. We may also engage third-party consulting firms to provide professional evaluation and facilitate us to identify the candidates that are most suitable for the vacancy as well as our corporate culture.

We provide regular training to our employees. Impro Academy, our group-level training center established in January 2013, provides regular training to our employees in three key areas: management, professional skills and personal development. Training course lecturers include both our employees who are experienced in the relevant areas and external industrial experts and trainers. Our various departments also provide internal training to our employees. In addition, we have two special training programs, namely “Impro Elite Talents Training Program” which is specially designed for our technical management personnel from different

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departments and our “Young Eagles Scheme” which provides comprehensive training to university graduates who have joined us as trainees through working at different front-line departments and positions for approximately six months before they are assigned to work at a particular position.

During the Track Record Period, we did not experience any significant difficulties in recruiting suitable staffs for our operations. Save as disclosed in the prospectus, neither did we have any material disputes with our employees, or experience any strike, labor disputes or industrial actions that may have a material adverse effect on our business, financial condition and results of operations.

Trade Unions and Collective Bargaining Agreements

Most of our employees in Germany, Turkey and Mexico are members of the industrial trade unions or labor unions. Regardless of membership in a labor union, all our employees in Germany are represented by the members of the works council within BFG-Niederrhein and BFG-Hessen in accordance with the Betriebsverfassungsgesetz, i.e. the Works Constitution Act, in Germany. See “Applicable Laws and Regulations — The Federal Republic of Germany — German Employment and Labor Law” and “Applicable Laws and Regulations — Turkey — Regulations Relating to Labor and Employment Matters — Trade Unions” for more details about the regulation of trade unions in Germany and Turkey.

Other than Germany, Turkey and Mexico, our employees in other places where we have business operations do not participate in any trade unions or other employees’ organizations. Save as disclosed in this prospectus, we did not have any disputes with any trade union or employees’ organization as of the Latest Practicable Date.

Most of our employees in Germany, Turkey and Mexico are covered by collective bargaining agreements. BFG-Niederrhein, our subsidiary in Germany, is a member of the employers’ association (Arbeitgeberverband) and is bound by a collective bargaining agreement entered into between the said employers’ association and IG Metall. Historically, BFG-Hessen, another subsidiary in Germany, as a member of the employers’ association (Arbeitgeberverband) was also bound by the collective bargaining agreement entered into between the employers’ association and IG Metall. Starting from December 2010, BFG-Hessen has been an “off-tariff” member of the employers’ association and, as a result, has ceased to be bound by the collective bargaining agreement. Our subsidiary in Turkey, Cengiz Makina, a member of the employers’ union Turkish Employers Association of Metal Industries, is bound by a collective bargaining agreement entered into between the said employers’ union and United Metalworkers Union. Our subsidiary in Mexico, Impro Industries Mexico, is bound by a collective bargaining agreement entered into by it and a workers’ union which is affiliated with the Confederation of Mexican Workers.

The collective bargaining agreements determine the remuneration, working hours and other conditions of employment for employees who are members of the relevant trade unions. The collective bargaining agreements generally cover blue-collar workers and typically do not cover certain managing directors and managers of those companies. For example, in January

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2018, the Turkish Employers Association of Metal Industries, the employers' association of which Cengiz Makina is a member, and Birlesik Metal entered into a new collective bargaining agreement, which, among others, agreed a wage increase for members of Birlesik Metal due to the continuing domestic inflation.

In addition, BFG-Niederrhein and BFG-Hessen have entered into certain company specific agreements with their respective works council with respect to piece work remunerations, working time, stand-by services of maintenance, holidays, use of information technology system, pension scheme and others.

See "Applicable Laws and Regulations — Turkey — Regulations Relating to Labor and Employment Matters — Collective Bargaining Agreements" for more details about the regulation of collective bargaining agreements in Turkey.

Save as disclosed above, our employees in other places where we have business operations do not negotiate their terms of employment through any labor union organization or by way of collective bargaining.

Dispatched Workers

PRC Dispatched Workers

For our production in the PRC, we have agreements with three labor service companies to engage contract workers. These labor service companies are Independent Third Parties. Under the agreements, the labor service companies are obligated to pay salaries, maintain personal records, make social and accident insurance contributions for the individual dispatched workers and be responsible for the necessary compliance matters under the applicable labor laws. In return, we pay the labor service companies a monthly fee that is calculated on the basis of the headcount of the relevant dispatched workers. Also, the wage paid to those dispatched workers by the labor service companies should be equal to or above the minimum level set by the applicable laws and regulations. In case of a workplace accident, we would be responsible for the compensation in accordance with the applicable laws and regulations and the relevant contracts.

As of December 31, 2016, 2017 and 2018, we had 317, 228 and 191 dispatched workers in the PRC, respectively. Generally, we staff our dispatched workers to temporary, supporting and displaceable positions in production facilities, such as cleaning, polishing and deburring, as these positions require significant labor but less skill and experience and no long-term training. After the expiry of two years, we evaluate each dispatched worker's performance and consider giving offers to the workers with better performance to become our employees. The Directors confirm that the above arrangements can provide flexibility for us to manage our workforce as the labor service companies can handle administrative matters relating to the dispatched workers more efficiently. In 2016, 2017 and 2018, we paid service fees to these PRC labor service companies in the amount of RMB18.9 million, RMB16.8 million and RMB12.8 million, respectively.

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JunHe LLP, our PRC legal advisor, have advised us that there is no contractual relationship between us and the dispatched workers under the foregoing arrangements and that the contractual arrangement with the labor service companies is in compliance with the applicable PRC laws and regulations including the PRC Labor Contract Law in all material respects. See “Risk Factors — Risks Relating to Our Business and Our Industry — We face increased costs in complying with worker safety and labor regulations.”

Our Directors confirm that we are in compliance with the relevant labor and social welfare laws and regulations in jurisdictions where we operate our business, and that relevant social security contributions pursuant to these laws and regulations have been duly made.

Dispatched Workers in Germany

Our subsidiaries in Germany, BFG-Niederrhein and BFG-Hessen, have entered into dispatched worker agreements with Independent Third-Party labor service companies to engage dispatched workers. Pursuant to these agreements, BFG-Niederrhein and BFG-Hessen hire dispatched workers from the labor service companies and pay these companies agreed fees for the provision of the services based on agreed hourly rates and the working hours. The labor service companies are responsible to pay to these dispatched workers their remuneration as well as social security and healthcare. As of the Latest Practicable Date, BFG-Niederrhein and BFG-Hessen hired a small number of dispatched workers and during the Track Record Period, BFG-Niederrhein and BFG-Hessen paid an insignificant amount to the labor service companies under to the relevant agreements. The temporary dispatched workers’ salaries, social security and healthcare were directly settled by those labor service companies.

OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

Occupational Safety

We implement stringent safety policies in our production at all times. New employees are provided with safety manuals and are required to complete training on operational safety before they commence working at our facilities. We have dedicated full-time in-house occupational safety personnel at most of our production plants. Under the PRC state and local occupational safety laws and regulations, we are required to have full-time or part-time work safety management personnel for each of our production plants, and these personnels must have work safety knowledge and management capabilities commensurate with the business of each production plants. Furthermore, employers are required to set up a committee that works on issues concerning occupational health and safety at workplaces with fifty or more employees (or permanent workers) where continuous works lasting more than six months are undertaken.

Our in-house occupational safety personnel are in charge of instructing regular safety training courses for workers and managing and supervising our workplace safety policies by: (i) checking the safety equipment and compliance with production procedures regularly; (ii) submitting occupational safety reports to the management on a frequent basis; and (iii)

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chairing the plant-wide weekly occupational safety review sessions attended by the management of the plants. We have also formulated and implemented procedures to guide our internal departments and staff to handle workplace safety incidents appropriately. Under such procedures, our occupational safety personnel are primarily responsible for recording workplace safety accidents, and they share the root cause analysis in respect of the accidents with our employees to prevent their reoccurrence.

Our production processes are in compliance with all applicable governmental rules and regulations on safety standards in China, Germany, the Czech Republic, Turkey and Mexico. During the Track Record Period, there was one fatal accident in one of our PRC plants, please refer to “— Regulatory Compliance — Fatal Accident in Our PRC Plant” for more details.

In addition, there were also a number of other workplace accidents across our plants at different locations, each of which was immaterial and was related to the relevant employees' failure to operate equipment in accordance with the safety manuals or failure to use protective equipment. These accidents resulted in body injuries to the workers concerned, including injuries to fingers and feet and fractured bones. We believe all of these accidents were primarily due to the relevant workers' careless operations of equipment or vehicles in spite of required safety operation procedures, and we do not believe any of these accidents was related to malfunctioned equipment or any non-compliance with workplace safety laws and regulations. As of the Latest Practicable Date, all proceedings in connection with these workplace accidents had been solved and all of damages and compensations, the amounts of which were insignificant given our scale of operations, had been settled. Considering the nature and the scope of impact by the workplace accidents on our financial results, the Directors are of the view that provision for workplace accidents is not necessary.

To improve our occupational safety environment and prevent similar workplace accidents, we have: (i) purchased protective equipment for each of our production workers, such as protective goggles, working clothing, helmets, ear plugs, shoes and gloves to protect our workers from dust, splashing solution, noise, flame and falling items; (ii) adopted more stringent procedures in safety manuals and more stringently implementing the policies of using protective equipment at work place, (iii) provided additional occupational safety and health training to new employees and (iv) maintained directly, and requested the independent labor service companies to maintain, workplace accident insurance for our employees and dispatched workers, respectively. We have improved our workplace safety by automating the cutting and pouring process.

Environmental Protection

We are subject to certain national and local environmental protection laws and regulations applicable in jurisdictions where we have production plants, such as China, Turkey, Germany, the Czech Republic and Mexico. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharges. See “Applicable Laws and Regulations — The PRC — Regulations Relating to Environmental Protection,” “Applicable Laws and Regulations — The Federal Republic of

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Germany — German Environmental Law,” “Applicable Laws and Regulations — The Czech Republic — Czech Environmental Law” and “Applicable Laws and Regulations — Turkey — Regulations Relating to Environmental Matters” for the requirements under such laws and regulations.

Our production generates waste water, solid waste, noise, dust, air pollutants, sewage and other industrial waste at different stages of production process. Construction of our production plants is in the compliance with the applicable environmental laws and regulations. All of our production plants have completed the requisite environmental impact assessments at the initial construction stage and have established the relevant environmental protection equipment and passed the completion inspections by the government authority before commercial production. As of the Latest Practicable Date, nine of our production plants located in China, Germany and Turkey have been accredited ISO 14001 certifications.

To ensure our production complies with applicable environmental protection laws and regulations in jurisdictions, where our production facilities are located, we have established environmental protection implementation and management teams, which are mainly liable to (i) identify and preempt potential factors that may generate environmental impacts during the production processes; (ii) be in charge of the professional waste disposal; and (iii) closely monitor the change of local environmental laws and regulations and update our internal production requirements accordingly. Most of our production plants have an environment management team and our Group has over 18 environment management staff, five of whom have been accredited ISO 14001 internal control certifications.

Subject to the waste types, we adopted various environmental protection measures, including: (i) waste water treatment plants are established to process all waste water to meet the emission standards; (ii) all air pollutants are emitted through qualified emission towers after being purified by activated carbon tower; (iii) dusts are emitted through qualified emission towers after being purified by dust collectors; (iv) the floors at production workshops are waterproof and certain areas also have chemical proof floors to avoid leakage of chemical corrosion, and secondary containers are used for chemicals; (v) to promote waste reduction and recycling, some production plants have established reclaimed water equipment and some plants have established cutting and coolant fluid filtration systems; and (vi) we have also engaged professional waste management companies to collect and process various wastes.

Save for a few minor incidents of non-compliance, during the Track Record Period, we were in compliance with in all material respects the relevant environmental protection laws and regulations. In addition, to ensure our continuous compliance with environmental laws and regulations, we keep constant communications with local environmental authorities where our production plants are located and closely monitor the updates of new environmental laws and regulations. We also have engaged a consulting company to assist us in examining our existing environmental measures on a regular basis to ensure that we comply with any new environmental laws and regulations, who report to us with any issues it may observe. We will timely improve or rectify any defects in our environmental protection facilities in response to any potential environmental risks.

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In 2016, 2017 and 2018, we incurred costs of less than HK\$15 million in each period in connection with compliance with applicable environmental laws and regulations. We estimate that our annual cost of compliance going forward will be at a level similar to that during the Track Record Period.

PROPERTIES

Our headquarters are at Unit 1008, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. Our production facilities are located in China, the Europe and North America.

We occupy certain properties in Hong Kong, China, Turkey, Germany, Luxembourg, Czech Republic, Mexico and the United States in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our production facilities, logistics centers and warehousing facilities, sales and customer services offices, research and development space and offices.

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all our interests in land or properties, for the reason that, as of December 31, 2018, none of our properties has a carrying amount of 15% or more of our consolidated total assets.

Owned Properties

As of the Latest Practicable Date, we owned 42 buildings in China, Turkey, Germany and Czech Republic, with an aggregate gross floor area of approximately 458,271 square meters principally used for our production facilities, warehousing facilities and sales offices to support our business operations, and which are located on 22 parcels of land with an aggregate site area of approximately 888,125 square meters. The following table sets forth a summary of certain information regarding our owned land and buildings.

BUSINESS

| Geographical location | Use of Property | Land | | Buildings | |
|-----------------------|--|-------------------------------|-----------------------------------|--------------------------------------|--|
| | | Approximate site area (sq.m.) | Percentage of total site area (%) | Approximate gross floor area (sq.m.) | Percentage of total gross floor area (%) |
| China | Production facilities, warehousing facilities, sales and customer services offices | 486,182 | 54.8% | 427,941 | 93.4% |
| Mexico..... | Production facilities and warehousing facilities | 227,474 | 25.6% | — ⁽¹⁾ | — ⁽¹⁾ |
| Germany | Production facilities, warehousing facilities, sales and customer services offices | 139,711 | 15.7% | 16,237 | 3.5% |
| Turkey | Production facilities, warehousing facilities, sales and customer services offices | 30,154 | 3.4% | 13,402 | 2.9% |
| Czech Republic ... | Production facilities and warehousing facilities | 4,604 | 0.5% | 691 | 0.2% |
| Total | | <u>888,125</u> | <u>100.0%</u> | <u>458,271</u> | <u>100.0%</u> |

Note:

(1) Currently under construction.

We have obtained the land use rights certificates for the parcels of land in China and on which our buildings in China are located, and have obtained the property title certificates for all such buildings in China. As advised by our legal advisors, there are no title defects with respect to all of our owned land and properties in China, Mexico, Turkey, Germany and the Czech Republic.

Leased Properties

As of the Latest Practicable Date, we leased seven properties in Hong Kong, Luxembourg, Czech Republic, Turkey, Mexico and the United States, with an aggregate gross floor area of approximately 13,288 square meters, from Independent Third Parties. These properties are mainly used for our logistics centers, warehousing facilities and sales office to support our business operations. The gross floor area of leased warehousing facilities may change as we lease such facilities on an as-needed basis. The following table sets forth a summary of certain information regarding our material leased properties.

BUSINESS

| Geographical location | Use of property | Approximate gross floor area (sq.m.) | Percentage of total (%) |
|-----------------------|---|--|----------------------------|
| Hong Kong..... | Our global headquarters and sales office | 506 | 3.8% |
| United States | Logistics centers and warehousing facilities, sales and customer services offices | 5,754 | 43.3% |
| Luxembourg | Sales and customer services office | 99 | 0.7% |
| Czech Republic | Warehousing facilities and production facilities | 1,610 | 12.1% |
| Turkey | Warehousing facilities and production facilities | 1,664 | 12.5% |
| Mexico | Warehousing facilities and production facilities | 3,655 | 27.5% |
| Total | | <u>13,288</u> | <u>100.0%</u> |

Our lease agreements have lease expiration dates ranging from June 2020 to June 2024. We expect to renew, and will be able to renew, all of the above lease agreements upon their expiry. Furthermore, as advised by our legal advisors, all of the aforementioned leases are valid, enforceable and binding on the parties to the lease agreements.

Property Under Construction

We are currently in the course of completing the construction of our CMTR-2, which is to be used principally as our precision machining production facility. We expect to complete the construction and commence production in the second quarter of 2019.

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AWARDS

We have been granted a number of awards from relevant government authorities, industrial associations and our customers, including but not limited to:

| Award/Certificate | Year | Government Authorities or Industry Associations |
|--|------------------------|--|
| • A Leading Company in Ecological Civilization Construction of Jiangyin City | 2019 | Environment Protection Committee of Jiangyin City |
| • Best-in-class Casting Special Award..... | 2015, 2018 and 2019 | China Foundry Association |
| • The Third Session of the Comprehensive Top 100 Enterprises in the China Casting Industry | 2018 | China Foundry Association |
| • The Third Session of the Pioneer Enterprises in the China Casting Industry — Investment Mold Precision Casting Category..... | 2018 | China Foundry Association |
| • Best-in-class Casting Award..... | 2016 and 2017 | China Foundry Association |
| • Jiangsu Demonstration Intelligent Workshop | 2015 | Jiangsu Economic and Information Technology Commission |
| • Demonstration Project Certificate of National Torch Program ⁽¹⁾ | 2014 | PRC Ministry of Science and Technology |

Note:

(1) Accredited to the AP1000 project of Plant 8.

| Award/Certificate | Year | Customers |
|---|------------------|---------------------------------------|
| • Honeywell APAC Supplier Excellence Award | 2019 | Honeywell |
| • Excellent Supplier Award | 2019 | Hitachi Instrument (Suzhou) Co., Ltd. |
| • Honeywell APAC Supplier Award . | 2018 | Honeywell |
| • Caterpillar Quality Excellence Certification..... | 2017 | Caterpillar |
| • Parker Aerospace A-rating Excellent Supplier Performance Award..... | 2016 and 2017 | Parker-Hannifin |
| • Parker Excellent Supplier Award .. | 2017 | Parker-Hannifin |

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| Award/Certificate | Year | Customers |
|---|-----------|-----------------------------|
| • Honeywell Aerospace HBAS Excellent Supplier Award | 2017 | Honeywell |
| • GE Supplier of the Year Award..... | 2015 | GE |
| • Cummins Excellent Supplier Award..... | 2013-2015 | Cummins |
| • Daimler Benz Best Quality Award ⁽¹⁾ | 2015 | Mercedes-Benz Werk Mannheim |
| • Honeywell APAC Best Quality & Delivery of the Year Award..... | 2014 | Honeywell |
| • Polaris Star Program Award..... | 2014 | Polaris |
| • GE Power & Water Distributed Power Cost Award | 2014 | GE |

Note:

- (1) Granted to Cengiz Makina for achieving zero ppm (standing for zero defective parts in a million, a measure commonly used to evaluate the supplier quality performance) for three consecutive years since 2012. We acquired Cengiz Makina in August 2014.

LICENSES AND PERMITS

As advised by our legal advisors as to PRC, the United States, German, Czech, Turkish and Mexican laws, where required and applicable, we have obtained all material requisite licenses, approvals and permits from the relevant government authorities for our business operations in the PRC, Turkey, the United States, Germany, the Czech Republic and Mexico, respectively.

For our PRC plants, the major approvals or licenses that we are required to obtain before we commence operations are approvals or permits relating to environmental impact assessment and waste and pollution controls, and we are also required to comply with applicable laws and regulations in the PRC and passed relevant assessments in relation to safe management of hazardous materials, contribution as employers to social insurance and housing accumulation funds and ensuring that our products meet applicable standards of safety requirements. Furthermore, we are required to complete applicable import and export declaring formalities with local customs authorities.

For our plants in Germany and the Czech Republic, we are required to comply with the applicable laws relating to waste control, protection of soil and water, emission control as well as obtaining export permission for particular types of products such as military products. In Turkey, the establishment of our plants requires us to obtain construction permit, building utilization permit, workplace opening and operation permit and the major approvals or licenses for our operations relate to emission controls, waste water discharge, air emission and noise pollution controls. Our operations in Mexico will require us preparing environmental impact statements and obtaining authorizations for water discharge and registration for hazardous and non-hazardous residues generator.

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Furthermore, as required by some of our customers and also to ensure the quality of our products, we have obtained a number of industry-specific certifications. See “Business — Quality Management — Quality Management Certifications” for further details.

We have a dedicated team to monitor the due compliance and renewal of the approvals, licenses and certifications required for our business activities around the world. On-site audit works by third party audit firms will generally commence around two months prior to the expiry dates for the purpose of ascertaining any additional requirement or impediment for the renewal. During the Track Record Period, we had a few minor incidents of non-compliance which relate to environmental impact controls and measures. However, we did not experience any major obstacle in renewing the required approvals, licenses and certificates. Our Directors do not foresee any impediment or major difficulty in renewing any required approvals, licenses or certificates.

INSURANCE

We maintain property insurance to cover potential damages to our properties, equipment, vehicles, computers and other properties owned by us. The insurance coverage varies at entity level to accord with local and industry practice. Based on our past experience and understanding of the prevailing industry practice in China and other locations where we operate, we believe the coverage of such property insurance is adequate to cover any material property damages and is in line with the industry norm. Our subsidiaries in the PRC maintain property insurance covering damages to their properties, equipment, vehicles, computers and other valuable properties and insurance covering risks associated with workplace safety, including death or injury of workers who operate machines.

Impro International maintains general commercial liability insurance up to US\$10 million covering all of its subsidiaries in terms of product liability and public liability, except for products of a particular customer which are covered by a separate insurance pool, and excluding BFG Group and Cengiz Makina, which maintain their own commercial general liability insurances. Cengiz Makina, BFG Group, Impro China and Impro Yixing also carry insurance addressing damages arising out of accidents at our production facilities. Moreover, BFG Group also maintain insurance policies for business interruption due to fire, environmental liability and damage, automobile recall, group accident, directors’ and officers’ liability and legal costs for criminal cases. Cengiz Makina also maintains insurance policies for machine breakdown, electronic devices, employer’s liability, third party liability, money transfer, hazardous material, vehicle insurance and general product liability.

We believe our insurance coverage is adequate and in line with the industry practice in the places where we have business operations. With the expansion of our business and potential new risk exposure we may have, we may take out other insurances as our Directors deem appropriate.

LEGAL PROCEEDINGS

From time to time, we may be involved in litigation, claims or other legal proceedings relating to workplace accidents, contract disputes and other matters in the ordinary course of

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business. Save as disclosed under this section and “— Regulatory Compliance” in this prospectus, during the Track Record Period, neither we nor our Directors were involved in any litigation, arbitration, administrative proceedings or other legal proceedings that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. As of the Latest Practicable Date, save as the arbitration disclosed below, there were no existing or threatened litigation, arbitration, administrative proceedings or other legal proceedings against us or any of our Directors that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations.

Arbitration with Certain Former Shareholders of Shenhai Group

In 2014, Impro China entered into a series of share transfer agreements with four individuals and Hong Kong Yingxin Limited (香港盈鑫有限公司), a company owned by these individuals, to acquire from them the aggregate 100% equity interests in Shenhai Group at an initial total consideration of RMB642.8 million.

From June 2014 to March 2015, Impro China made several instalment payments to these former shareholders pursuant to the share transfer agreements. In May 2015, due to the failure to reach an agreement in time on the adjustment approach of certain share transfer considerations in accordance with the conditions and terms under the relevant share transfer agreements, Impro China, in anticipation to further proceed with the contemplated transaction and to preserve the evidence and good faith to perform the agreements, made an application for notarial deposits of RMB128.0 million with the Notary Public Office of Wuxi, representing a portion of then total outstanding considerations to be paid to two former shareholders of Shenhai Group (“Applicant Shareholder A” and “Applicant Shareholder B,” and collectively “Applicant Shareholders”). In August 2015, all parties reached agreement on certain payment conditions and proceeded with the share transfer transaction. The Notary Public Office of Wuxi released and returned the notarial deposits to Impro China in accordance with its procedures and Impro China subsequently transferred the respective amounts to the Applicant Shareholders. Among others, pursuant to a notarized written authorization letter signed by Applicant Shareholder A, Impro China, following the designated representative’s instruction, transferred RMB104.6 million in the following manner (i) RMB88.6 million was wired to the designated bank account of the Applicant Shareholder A, (ii) RMB8.0 million was wired to the designated bank account of this designated representative herself (“**Designated Representative**”), and (iii) RMB8.0 million was wired to the designated bank account of a domestic law firm (items (ii) and (iii) collectively, the “Dissenting Payments”).

In July 2016, however, we were informed that the two Applicant Shareholders filed an arbitration application with the Shanghai International Economic and Trade Arbitration Commission, claiming, among others: (i) the invalidity of the notarial deposits made by Impro China with the Notary Public Office of Wuxi in August 2015, (ii) late penalties on the amounts settled with the two Applicant Shareholders after May 2015 subject to the share transfer agreements, and (iii) that Impro China shall pay RMB16.0 million to Applicant Shareholder A on the basis that the Dissenting Payments made pursuant to the designated representative’s instruction were not authorized by Applicant Shareholder A under the authorization letter.

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The arbitral tribunal issued the arbitration award in January 2018, deciding, among others, (i) in favor of Impro China that the notarial deposits are valid before they were released and returned to Impro China in August 2015, (ii) in favor of Impro China that the payments to those two Applicant Shareholders after May 2015 did not constitute a default and Impro China shall not be liable for any late penalties, and (iii) in favor of the Applicant Shareholder A that Impro China shall make the outstanding payment of RMB16.0 million to him, on the basis that Impro China failed to use reasonable care when wiring the Dissenting Payments in reliance on the authorization letter and the oral instruction of the designated representative.

Impro China engaged JunHe LLP as the special counsel to represent it in the arbitration process. We have filed an application in February 2018 to institute an action at a local people's court to revoke the arbitration award but our application to revoke the arbitration was rejected. In this connection, we have further paid a sum of RMB16.7 million outstanding consideration payable and related interest to the the local People's Court in Wuxi ("**Wuxi Court**") bank account according to the executive order as issued by Wuxi Court in early July 2018. To protect the Group's interest, the Group appealed to Wuxi Court on July 3, 2018 claiming that the Applicant Shareholder A and the designated representative have committed a tort fraud. Also, the Wuxi Court has frozen the aforementioned RMB16.7 million pending court decision on the Company's appeal. The Wuxi Court has rejected the Company's appeal on September 30, 2018 but Impro China has made a further appeal to such decision, which was again rejected on November 27, 2018. On January 8, 2019, we appealed to the local People's Court in Shanghai, claiming the unjust enrichment amounting to RMB8.0 million received by a domestic law firm involved.

In addition, in April 2019, Impro China sued the Designated Representative at the Wuxi Court, claiming for the repayment of RMB8.0 million and related interests by the Designated Representative as well as alleging criminal offence of embezzlement. Shenhai Group received an arbitration notice on October 8, 2018 that this law firm filed a case against the former shareholders of Shenhai Group and claimed overdue legal fees it incurred for another matter it represented Shenhai Group, whereas Shenhai Group was requested to undertake a joint liability. As of the Latest Practicable Date, such arbitration was suspended as the arbitrators considered this case is linked to our Group's appeal against the law firm filed in January 2019. We have made provision in the total amount of RMB16.0 million during the Track Record Period against the potential loss we may incur in connection with this matter.

Furthermore, on March 29, 2019, the Applicant Shareholders filed another arbitration application with the Shanghai International Economic and Trade Arbitration Commission claiming for RMB50.7 million, representing the final instalment payment to the Applicant Shareholders in relation to the share transfers, plus interests and legal fee. The final instalment has not been released to the Applicant Shareholders pending the resolution of the arbitrations referred to above. However, the full amount of the final instalment payment has been accounted for and we have also made provision for accrued interests in our financial statements for the Track Record Period. As such, we are of the view that even in the event the Applicant Shareholders are successful in the arbitration claim, it will not have a material adverse impact on our financial results.

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REGULATORY COMPLIANCE

During the Track Record Period, we had a few minor incidents of non-compliance which mainly relate to environmental impact controls and measures. The fines imposed on us were immaterial and our business operations had not been materially affected. Furthermore, we have received advice from our legal advisors as to PRC, the United States, German, Czech, Turkish and Mexican laws that, during the Track Record Period and up to the Latest Practicable Date, we did not have any material non-compliance with the applicable laws and regulations of the places where we had business operations.

Fatal Accident in Our PRC Plant

During the Track Record Period, we had one fatal accident in one of our PRC plants. On January 3, 2017, a maintenance worker at our Plant 8 returned to his workplace and was fatally injured by an accidentally restarted machinery after the maintenance work was completed. We believe the accident was primarily caused by (i) the relevant maintenance team not fully following our procedures in connection with equipment maintenance that the equipment can only be restarted after it is confirmed that the relevant site is clear and safe; and (ii) the deceased employee recklessly going back to the site without informing his team members.

The Administration of Work Safety of Haimen conducted an on-site investigation immediately, which caused a ten-day suspension of the operation of Plant 8 from the date of this accident. Subsequently, in March 2017, Nantong Shenhai was found to be not fully compliant with the PRC Law on Safety Production and partially liable for this accident, Nantong Shenhai was imposed an administrative penalty of RMB250,000 by the Administration of Work Safety of Haimen, which we paid promptly. We had also paid a compensation, net of the insurance coverage, of approximately RMB800,000 to the family of this employee. Based on the administrative penalty decision, the accident was caused by our failure to distribute equipment maintenance manuals to all relevant employees and not having adequately provided occupational safety trainings to these employees.

After the occurrence of the accident, we have immediately taken certain actions and implemented the following enhanced safety measures in addition to our regular safety procedures to prevent accidents of a similar nature, including, (i) engaged a third party consulting firm to conduct a full inspection on our workplace safety and had immediately adopted remedial measures to rectify their findings, such as properly putting on safety and warning signs next to production machinery at our plant, especially to those power switches and emergency brakes; (ii) appointed a designated safety manager and established a designated safety management office, which is responsible for the establishment and implementation of our various workplace safety policies; (iii) invited outside consulting experts and organized safety trainings and seminars for our maintenance workers; and (iv) reviewed and enhanced our policies in connection with safety operations.

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In January 2018, the Administration of Work Safety of Haimen issued a letter to us, confirming that (i) during the Track Record Period, Nantong Shenhai has been in compliance with the workplace safety related laws and regulations in all material respects, and (ii) the accident does not constitute a major workplace safety accident. Our PRC legal advisor is of the view that it is unlikely we will be further penalized due to the same accident in the future.

View of Our Directors

Considering the causes of the accident, our Directors believe that it was an isolated accident. There have been no claims or other legal proceedings brought against us in connection with the incident.

Based on (i) the confirmation letter issued by the relevant government authority, (ii) the amounts of penalties and compensation payments, (iii) our enhanced workplace safety policies and measures we have adopted for Nantong Shenhai, and (iv) the fact that there had not been any fatal or serious accident or injuries arising from the daily operations of this plant since the accident, our Directors are of the view that (i) such accident does not have any material adverse impact on our business and financial results, and (ii) we had implemented adequate and effective measures to comply with the applicable laws and regulations and to avoid the recurrence of similar accidents in the future.

U.S. Export Control Matters

In 2016, Impro USA was informed by one of its U.S. customers that certain request for quotes (“**RFQ**”) it previously provided to Impro USA which were subsequently shared with our subsidiaries in China and Hong Kong for quotation contained certain technical drawings which were considered to be controlled by the Export Administration Regulations and should not have been forwarded to China without an export license (the “**Controlled Information**”). The Group did not supply any product under this RFQ and hence no revenue was generated.

We believe the conduct in question was primarily the result of the customer inaccurately and inadequately identifying and notifying us about the existence of the Controlled Information prior to the exportation. Through our historical business practices in the course of our dealings with this customer, the customer was generally aware that all RFQs it provided to Impro USA would subsequently be shared with our subsidiaries in China and Hong Kong for quotation, as Impro USA is mainly engaged in sales and marketing activities in the United States and does not engage in any manufacturing itself.

After being informed that Controlled Information had been provided to it by its customer in March 2016, Impro USA took remedial measures to destroy records relating to such Controlled Information that had been exported. It also engaged outside legal counsel in connection with this export control matter and conducted an extensive internal investigation on all RFQs provided by this customer in the past five years from November 2011 to November 2016. During the internal investigation, the outside legal counsel also consulted with the customer’s legal counsel to further clarify the status of certain RFQs.

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Impro USA identified four instances of improper exportation in total through its internal investigation. It filed an initial voluntary self-disclosure with the Office of Export Enforcement, or OEE, of the Bureau of Industry and Security of the U.S. Department of Commerce in November 2016, and supplemented that disclosure in June 2017. In August 2017, OEE issued a warning letter to Impro USA, noting OEE's decision to decline referring the disclosed conduct for criminal or administrative prosecution and closing the matter. No monetary penalty was imposed by OEE in connection with this conduct and no action was taken by the authority. The Company did not generate any revenue from any of the instances of improper exportation.

As part of the internal investigation, Impro USA reviewed RFQs from five other U.S. customers who operate in similar industries as this customer and did not identify any similar instances of improper exportation. We concluded that the series of export control matters in 2016 was not indicative of a systemic pattern.

Moreover, in order to ensure future compliance with the U.S. export control laws, with the assistance of the outside legal counsel, Impro USA has implemented updated policies and procedures in order to identify and prevent similar potential export control issues, see “— Internal Control Measures” below for more details. In addition, it is generally not practicably possible for us to immediately and directly identify whether technical information provided in RFQs by our customers is controlled under applicable export control laws absent indications or notations by the customers who supply that information. We have advised our relevant customers to establish effective procedures, including improving disclaimer language, to identify and prevent potential risks in this regard.

Considering (i) the no action letter issued by the OEE and the fact that no monetary penalty was imposed, (ii) the advice provided by the outside legal counsel, and (iii) the fact that relevant internal control procedures have been adopted, our Directors are of the view that the conduct identified in its disclosure to OEE would not have a material operational and financial impact on us.

Internal Control Measures

Since December 2015, Impro USA has implemented export management policies which have been reviewed and approved by the president of Impro USA. Its staff are required to sign a written acknowledgement of the export control policy and shall follow the stipulated procedures to ensure the compliance with the relevant laws and regulations. In particular, under the export control policy, we have designated an export management and compliance manager whose job is to manage and monitor export activities. Our employees will receive regular training and internal audits of export control compliance are performed on a regular basis. We also maintain a record keeping system in compliance with the ITAR requirements.

Moreover, in November 2015, Impro USA engaged an outside legal counsel to provide relevant consulting services regarding export management. Impro USA's finance department will conduct restricted screening procedures on new customers to comply with the relevant

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Economic Sanctions Regulations, Export Administration Regulations and International Traffic in Arms Regulations according to the export control policy. Furthermore, all customers will be reminded that information may be transmitted to our subsidiaries in the PRC and that an export license may be required.

Since October 2016, Impro USA has also established a RFQ internal screening procedures and RFQ Export clearance checklist to provide clear instruction for RFQ screenings. Relevant managers are required to screen documents pursuant to these internal procedures and checklists. In case there is any potential questionable RFQ, the relevant employees shall clarify with the relevant customer before deciding whether such RFQ shall be proceeded. An approval of the relevant manager is required for the RFQ export clearance checklist. The screening procedures also form part of our export control policy.

INTERNAL CONTROL MEASURES AND RISK MANAGEMENT

Internal Control

In preparation for the Listing, in November 2017, we engaged an independent internal control consultant to perform an assessment on the effectiveness of our internal controls to identify deficiencies in our internal control and to furnish recommendations on enhanced internal control measures to be established by us. The internal control consultant also reviewed our export management. The report of the internal control consultant was updated in April 2019. Please refer to “— Regulatory Compliance — U.S. Export Control Matters” for more details.

Having considered the immaterial nature and reasons for the deficiencies identified by our internal control consultant, the actions taken and the enhanced internal control measures we have adopted, our Directors are of the view that our Group’s enhanced internal control measures are adequate and effective having regard to the obligations of the Company and our Directors under the Listing Rules and other relevant legal and regulatory requirements.

Risk Management and Corporate Governance

We are exposed to various risks, such as credit risk, liquidity risk, interest rate risk and currency risk, in the course of our business operations. For more details, see “Financial Information — Quantitative and Qualitative Analysis of Market Risks” for more details.

Furthermore, we recognize the importance of good corporate governance in management and internal control procedures, and have adopted the following measures to manage potential conflicts of interest and to safeguard the interests of our Shareholders:

- (i) our updated Articles of Association, which are in full compliance with the requirements in the Listing Rules, will be adopted by on a date prior to the date of this prospectus for the purpose of the Global Offering and the Listing;

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- (ii) we have appointed Southwest Securities (HK) Capital Limited as our compliance advisor, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including without limitation various requirements relating to directors' duties and internal controls; and
- (iii) we plan to appoint our director of audit and supervision department as our compliance officer to oversee our corporate governance and on-going internal control matters before the Listing.

CONTINUING CONNECTED TRANSACTIONS

Immediately following the Listing, we will not have any transactions with our connected persons which would constitute connected transactions that are subject to the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under the Listing Rules. No waiver application from strict compliance with the relevant rules under the Listing Rules is required.

We will comply with the relevant requirements under Chapter 14A of the Listing Rules should there be any connected transaction after the Listing Date.

FINANCIAL INFORMATION

The following discussion should be read in conjunction with the audited consolidated financial statements and the accompanying notes of our Group, the text of which is set forth in Appendix I to this prospectus. Such consolidated financial information is prepared in accordance with IFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, including the United States. Investors should read the whole of the audited financial information as set out in Appendix I to this prospectus and not rely merely on the information contained in this section.

Information presented in this section, in particular, in respect of the sections headed “— Net Current Assets” and “— Indebtedness,” that is not extracted or derived from the Accountants’ Report has been extracted or derived from unaudited management accounts as of and for the four months ended April 30, 2019 (which are not included in this prospectus) or from other records.

Unless the context otherwise requires, financial information in this section is described on a consolidated basis. Unless otherwise specified, references in this section to “2016”, “2017” and “2018” are to the years ended December 31, 2016, 2017 and 2018, respectively.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to risks and uncertainties include, without limitation, those discussed in “Risk Factors,” “Business” and elsewhere in this prospectus.

OVERVIEW

We are a global top 10 manufacturer of high-precision, high-complexity and mission-critical casting and machined components for diverse end-markets. We supply customized casting and machined products and provide surface treatment services to a well-diversified global customer base. According to the Roland Berger Report, we were the world’s 7th largest independent and China’s largest investment casting manufacturer and also the world’s 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2018.

Our vertically integrated operations enable us to offer comprehensive one-stop solutions, including a suite of value-added services, which cover the precision component value chain. We serve customers which have global presence in a wide range of sectorial end-markets, including passenger car, commercial vehicle, high horsepower engine, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boat and vehicle, medical and energy. Many of our customers are well-recognized global industry leaders.

Since our inception in 1998, we have successfully implemented our “Twin Growth Engines” strategy and transformed ourselves from a small local PRC casting and machining plant to a company with sizable global operations that offers comprehensive one-stop solutions, and extended our business footprint from China to the United States and Europe. Our revenue increased at a CAGR of 21.3% from HK\$2,547.2 million in 2016 to HK\$3,749.1 million in 2018. We recorded a CAGR of 34.2% in adjusted net profit after tax (the “adjusted

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NPAT⁽¹⁾) where our adjusted NPAT increased from HK\$344.2 million for the year ended December 31, 2016 to HK\$620.2 million for the year ended December 31, 2018. Going forward, we aim to continue to grow sales and profit by delivering high quality products and high value services to our customers and also through acquisitions.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

- Global Macroeconomic Trends
- Demand in Our End-Markets
- Pricing and Product Mix
- Our Cost of Sales and Operating Expenses
- Production Capacity and Utilization Rate
- Foreign Currency Exchange Rates
- Taxation and Tariffs

Global Macroeconomic Trends

We sell our products and provide services to customers in the United States, Europe and Asia. In 2018, we generated 42.0%, 32.6%, 22.9%, and 2.5% of our revenue from the United States, Europe, China and the rest of Asia, respectively. Our revenue depends on the demand for our products and services in these regions, which is in turn dependent on their overall economic growth as well as the global macroeconomic environment. The global economy and the condition of our end-markets are influenced by many factors beyond our control, such as political uncertainty (including potential impact resulting from political and regulatory uncertainties in the United States and the proposed exit of the United Kingdom from the European Union), level of unemployment, inflation or deflation, real disposable income, interest rates, recession, taxation, and currency exchange rates. The international capital and credit markets have been experiencing volatility in recent years, which has resulted in a global tightening of credit terms. In addition, the growth of Chinese economy has slowed down in recent years. There have also been increasing concerns on the relationships among China and other Asian countries as well as the relationship between China and the United States, which may intensify conflicts to territorial, regional security and trade disputes.

Note:

- (1) We define adjusted NPAT as net profit after tax for the year adjusted for the after-tax impact of certain significant one-off items, as well as the amortization and depreciation related to the purchase price allocation adjustments as a result from the acquisitions of Shenhai Group and Cengiz Makina in 2014.

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In 2016, negative macroeconomic conditions in certain geographical regions led to the softening of demand in certain end-markets such as construction equipment and energy. Such negative macroeconomic conditions caused our sales, including those to some of our largest customers, to experience decline and fluctuations. Similar economic downturns, whether global or regional, could lead to declines in the demand for our products in our geographic markets and end-markets, thereby affecting our business, results of operations and financial condition.

On the other hand, we benefit from certain recent global macroeconomic trends. Since early 2017, growth of global economies accelerated. According to IMF, the global upswing in economic activity strengthened, with global growth projected to rise from 3.4% in 2016, to 3.8% in 2017 and 3.6% in 2018, especially in emerging market and developing economies. IMF also cited notable pickups in investment, trade, and industrial production, which are coupled with stronger business and consumer confidence. Such recovery supports the growing demand of our products in various end-markets, such as hydraulic equipment, construction equipment and agricultural equipment as evidenced by 19.7% and 23.0% sales growth in 2017 and 2018, respectively, although there was the unexpected downturn in the PRC automotive market starting from the fourth quarter of 2018. Meanwhile, in recent years, international companies in certain end-markets, such as aerospace, have increasingly relocated their manufacturing facilities to or expanded their existing facilities in China. We believe that this global trend will continue and we are well positioned to take advantage of such trend given our leading position in China's precision component industry and our established relationships with major international companies as our customers.

Demand in Our End-Markets

We sell our products to worldwide customers in a broad range of end-markets. In 2018, our sales to customers in passenger car, commercial vehicle, high horsepower engine, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boat and vehicle, medical and energy end-markets accounted for approximately 30.4%, 16.2%, 10.1%, 8.3%, 7.5%, 6.9%, 6.3%, 2.7%, 2.2% and 0.8% of our revenue. The growth of our revenue largely depends on the demands in these end-markets, and any downturn in any of these end-markets could adversely affect our results of operations. For example, in 2016, the overall downturn in commercial vehicle industry had resulted in a decrease in our sales, particularly in investment casting segment, to our major customers in this area. In addition, since early 2017, the demand of certain industrial markets such as hydraulic equipment, construction equipment and agricultural equipment, have rebound significantly and this has contributed to the growth of our sales. Despite the unexpected downturn in the PRC automotive market starting from the fourth quarter of 2018, the demand of our sand casting, precision machining and investment casting segments in 2018 continued to increase particularly for products used in high horsepower engine, aerospace and agricultural equipment, resulting in strong overall sales growth.

To manage concentration risk and cyclical changes in our end-markets, we review and endeavor to optimize our end-market coverage from time to time. In recent years, we have strategically increased our focus on selected end-markets with stronger growth prospects,

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such as aerospace end-market. Our revenue generated from the aerospace end-market increased from HK\$144.5 million in 2016 to HK\$196.0 million in 2017, and further increased to HK\$281.9 million in 2018. In the coming years, we plan to further diversify our end-market coverage and continue to strategically target and expand in certain end-markets with higher margin.

On the other hand, our integrated business model includes the co-development of new customized products satisfying new customers' needs or addressing new end-market applications. Our ability to continue to develop new component parts is crucial to gain new and retain existing customers, which in turn, affects our financial performance.

Pricing and Product Mix

As the revenue contribution and gross profit margin of our products made for different market segments and even products within the same segments vary significantly, changes in our product mix will largely affect our overall revenue and gross profit margin. We generally adopt a cost-plus approach to determine the prices of our products and services, under which we add our desired gross profit margins, which are based on their estimated manufacturing, administrative and sales costs, after referring to the prevailing market prices of similar products. In general, products with higher barriers-to-entry, such as those requiring higher precision and more complex process technologies, are of higher prices and higher gross profit margins. For example, during the Track Record Period, we expanded our production and increased our sales in the aerospace end-market, which generally offers higher gross profit margin relative to other end-markets. In addition, prices for casting components with a given level of technology generally decline over the relevant process technology life cycle as more advanced process technologies appear. As such, in the future, our overall gross profit margin will continue to depend on our ability to identify potential high growth end-markets and to optimize our product mix from time to time.

Our Cost of Sales and Operating Expenses

Cost of raw materials and consumables and staff costs incurred for productions are the main components of our cost of sales. Purchase of metals, such as stainless steel, alloy steel and iron, represents the majority of our cost of raw materials. In 2016, 2017 and 2018, cost of raw materials and consumables accounted for 31.6%, 35.3% and 36.6%, respectively, of our cost of sales. Any significant movement in the price of major raw materials that we use in our production could impact our cost of sales and, accordingly, our gross profit margin if we cannot pass on the cost increase to our customers.

To mitigate the impact of raw material price fluctuations on our gross profit margin, we seek to pass on the increases in procurement costs to our customers. Our supply agreements generally contain a pre-agreed base price range, and where applicable, the price adjustment mechanism which typically is subject to the fluctuation of raw material prices and/or foreign

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exchange rates. In such cases, price adjustments are typically made if the prices of certain raw materials increase or decrease beyond a certain percentage threshold, which differs from customer to customer and generally ranges from nil to 30%. See “Business — Customers — Pricing Policy.”

In addition, staff costs accounted for 30.7%, 28.4% and 27.1% of our cost of sales in 2016, 2017 and 2018, respectively. Our staff cost may increase in the future as a result of rising labor costs in the PRC and the global expansion of our operations. At the same time, we seek to increase automation in certain production processes to the extent feasible to mitigate increases in staff cost.

Our ability to control our selling and distribution expenses as well as administrative and other operating expenses also affect our profitability and results of operations. In 2016, 2017 and 2018, our selling and distribution expenses amounted to approximately HK\$107.5 million, HK\$121.8 million and HK\$162.3 million, respectively, representing approximately 4.2%, 4.0% and 4.3% of our revenue for the corresponding years. For the same periods, our administrative and other operating expenses amounted to approximately HK\$287.3 million, HK\$284.6 million and HK\$347.7 million, respectively, representing approximately 11.3%, 9.3% and 9.3% of our revenue. We expect these costs will continue to be a significant part of our operating expenses.

Production Capacity and Utilization Rate

Our results of operations are affected by our ability to fulfill customer demands, which are ultimately limited by our production capacity. Growth in our revenue and market share and the diversification of our product mix largely depend on our ability to expand our production capacity and manage our production planning in a cost efficient way.

Moreover, our profitability is also dependent on the economies of scale, therefore, operations at a reasonable capacity utilization rate is also of significance. For example, for investment casting, precision machining and sand casting segment, our overall production capacity and utilization rate also typically relies on the capacity of such principal machinery in the relevant bottleneck processes, meaning that the capacity of such processes largely determines the output of the relevant product, and it is not possible for us to utilize the idle capacity of the non-bottleneck processes unless we increase the capacity of these bottleneck processes. As such, our continuous debottlenecking ability is critical for our production capacity and utilization rate improvement. For more details about the calculation of our production utilization and our historical utilization rate during the Track Record Period, please see “Business — Production — Production Capacity, Production Volume and Utilization Rate.”

Other factors affecting capacity utilization rates include overall industry conditions, the level of customer orders, the complexity and mix of the product produced, maintenance and reconfiguring of production machinery and equipment, mechanical failures and other operational disruptions such as expansion of capacity or relocation of equipment, disruption of power or water supply, our ability to manage our production facilities and product flows efficiently and fire or natural disaster.

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As of December 31, 2018, we had 15 production facilities located in China, Turkey, Germany, the Czech Republic and Mexico with a total of 5,494 production staff. See “Business — Production — Production Capacity, Production Volume and Utilization Rate” for more details about our production capacity and utilization rate during the Track Record Period. We plan to continue to increase our production capacity in order to respond to growing customer demands and mitigate any bottleneck processes that limit our overall production. Based on our current expansion plans, we currently estimate that our capital expenditures in the year ending December 31, 2019 and 2020 would be approximately HK\$581.9 million and HK\$543.1 million, respectively. We believe our current production capacity and overall utilization rate can adequately support our production schedules based on our current orders and estimated business growth in the near future.

Foreign Currency Exchange Rates

We have business operations in a number of countries. We prepare our financial information in accordance with IFRS in Hong Kong dollars, which is our reporting currency. The functional currency of our subsidiaries, which in each case is the currency that best reflects the economic substance of the underlying events and circumstances relevant to a subsidiary, varies from country to country. The fluctuation of currency exchange rates affects our results of operations in a number of aspects.

A majority of our revenue is denominated in U.S. dollars, Euro and Renminbi, while a substantial majority of our cost of sales and operating expenses are denominated in Renminbi, Turkish Lira and Euro. Any fluctuation in these currencies may affect our revenue and cost of sales. We intend to mitigate the negative impacts of such foreign exchange rate fluctuations on our profit margin by entering into supply agreements with some of our customers that contain price adjustment provisions which are linked to exchange rate movements. See “Business — Customers — Pricing Policy.”

In addition, since our various subsidiaries have significant amounts of monetary assets and liabilities denominated in currencies other than their own functional currencies as of balance sheet dates, they may incur exchange gains and losses with the fluctuation of currency exchange rates, which could, in turn, affect our financial condition. To mitigate the exposure, we seek to hedge our foreign exchange risk by adjusting our interest bearing borrowing currencies in a proportion that broadly resembles the respective underlying sales currency proportion. For example, we have increased our bank borrowings denominated in Euro in 2016 and correspondingly reducing the proportion of our bank borrowings in Renminbi. As the sales currency proportion in the last three years has remained fairly consistent and that our customers typically confirm their orders six months in advance, we believe that we are able to adjust our bank borrowings currency proportion to mitigate against our foreign exchange risk. Our Chief Financial Officer, whose qualifications and experience are set out in “Directors and Senior Management — Our Senior Management.”, closely monitors the orders and sales of the Group as well as assessing on a regular basis the proportion of bank borrowings currencies.

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In addition, historically, we entered into certain foreign exchange forward contracts to hedge against the foreign currency risk. See “— Quantitative and Qualitative Analysis of Market Risk — Foreign Currency Risk” below for a detailed discussion about impacts on our results of operations by the fluctuation of currency exchange rates. All of our foreign exchange forward contracts were expired by May 2016.

We recorded an exchange gain of HK\$13.7 million in 2016 mainly arising from translation of our Renminbi denominated trade payables due to the depreciation of Renminbi in 2016 and revaluation of Euro denominated bank loans due to depreciation of Euro in 2016 and an exchange loss of HK\$36.1 million in 2017 mainly as a result of the revaluation of Euro denominated bank loans due to appreciation of Euro as well as translation of our Renminbi denominated trade payables due to the appreciation of Renminbi. We recorded a net exchange loss of HK\$17.9 million in 2018, mainly due to depreciation of Turkish Lira-denominated monetary assets. For the financial years ended December 31, 2016, 2017 and 2018, we recognized exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong dollars of loss of HK\$151.4 million, profit of HK\$249.6 million and loss of HK\$155.4 million, respectively, in other comprehensive income. The translation difference loss in 2016 was mainly due to the depreciation of Euro and Renminbi versus Hong Kong dollars as our functional currencies of subsidiaries in Europe, Turkey and China are denominated in Euro, Euro and Renminbi, respectively. The translation difference profit in 2017 was mainly due to the appreciation of Euro versus Hong Kong dollars. The translation difference loss in 2018 was mainly due to the depreciation of Euro and Renminbi versus Hong Kong dollars. Since we continue to grow our international operations, we expect our financial condition and results of operations to continue to be subject to foreign exchange risk.

Taxation and Tariffs

Our operations are subject to income tax, value-added tax and other local taxes in the PRC, the United States, Hong Kong, Turkey, Germany, Luxembourg, the Czech Republic and Mexico. In 2016, 2017 and 2018, our global effective tax rates were 17.4%, 16.6% and 15.6%, respectively. In 2016, 2017 and 2018, some of our PRC operating subsidiaries and our Turkey subsidiary were entitled to certain income tax reduction. See “— Components of Our Statements of Profit or Loss — Income Tax.”

We enjoyed preferential tax treatments or government subsidies available to our PRC operating subsidiaries. In addition, most of our products exported from China are entitled to value-added tax rebates. Generally, value-added tax is paid on our acquisition of raw materials, and we are entitled to value-added tax rebates upon the exportation of the end-products. The unrefunded portion of value-added tax paid is recorded in cost of sales.

If we are considered a PRC resident enterprise under the PRC EIT Law, we would be subject to the enterprise income tax at the rate of 25% on our global income. See “Applicable Laws and Regulations — The PRC — Regulations Relating to Enterprise Income Tax” and “Risk Factors — Risks Relating to the PRC — We may be deemed a PRC resident enterprise under the PRC EIT Law and subject to PRC taxation on our worldwide income.”

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During the Track Record Period, the provisional export tariff rate applicable to our products was zero. See “Applicable Laws and Regulations — The PRC — Regulations Relating to Export” and “Risk Factors — Risks Relating to Our Business and Our Industry — The discontinuation of any of the preferential tax treatments or government subsidies currently available to our PRC operating subsidiaries could adversely affect our results of operations, financial condition and prospects.”

A significant portion of our products are distributed to the United States and Europe, certain of which are subject to tariffs. We usually seek to pass on such tariff expenses to our overseas customers, who purchase our products at prices taking into account the tariffs. See “Risk Factors — Risk Relating to Our Business and Industry — Changes in international trade policies and international barriers to trade may have an adverse effect on our competitiveness and expansion plans.”

BASIS OF PRESENTATION

Our audited consolidated statements of profit or loss and other comprehensive income, consolidated statements of financial position, consolidated cash flow statements and consolidated statements of changes in equity as of or for the years ended December 31, 2016, 2017 and 2018 include the results of operations of our Company and our subsidiaries and have been prepared on a consolidated basis. We have eliminated intra-group balances and transactions in full in preparing such financial information.

During the Track Record Period, we acquired additional 16% equity interest in Impress Impeller for a consideration of RMB11.2 million in August 2017, and thereafter Impress Impeller became a 67%-owned subsidiary company of our Group. Upon the completion of the acquisition, we have the right to appoint the majority of the Directors and to unilaterally direct the operating activities of Impress Impeller by controlling the board of directors and we started to consolidate the results of Impress Impeller.

See “— Critical Accounting Policies and Estimates — Business Combinations” below for a discussion of our accounting policies on acquisitions. For more information on the basis of preparation of the financial information discussed herein, see Note 1 to Appendix I — “Accountants’ Report” to this prospectus.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial information in conformity with IFRS requires us to adopt accounting policies and make judgments, estimates and assumptions that affect amounts reported in our financial information. In applying these accounting policies, we make significant judgments, based on experience and various other factors, which frequently require estimates about matters that are inherently uncertain. The following sub-sections discuss the accounting policies applied in preparing our financial information that we believe are more dependent on the application of these judgments and estimates and certain other significant accounting policies.

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Subsidiaries

We view subsidiaries as entities controlled by us. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. When assessing whether we have such power, we consider only substantive rights (held by us and other parties).

We consolidate investment in a subsidiary into our financial information from the date control commences until the date control ceases. We eliminate intra-group balances and transactions and any unrealized profits arising from intra-group transactions in full in preparing the consolidated financial information. We eliminate any unrealized losses resulting from intra-group transactions in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

We account for changes in our interests in a subsidiary that do not result in a loss of control as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

Business Combinations

We account for business combinations using the acquisition method as of the acquisition dates when control is transferred to us.

Transaction costs, other than those associated with the issue of debt or equity securities, that we incur in connection with a business combination are expensed as incurred.

Revenue Recognition

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

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

Impairment of Assets

If circumstances indicate that the carrying value of an asset may not be recoverable, we may consider the asset impaired and recognize an impairment loss in profit or loss. We review the carrying amounts of assets periodically in order to assess whether the recoverable

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amounts have declined below the carrying amounts. We also test these assets for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, we reduce the carrying amount to the recoverable amount.

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

For investment in a joint venture accounted for under the equity method, we measure the impairment loss by comparing the recoverable amount of the investment with its carrying amount. We review our investment in a joint venture at the end of each reporting period to determine whether there is objective evidence of impairment.

Inventories

We carry inventories at the lower of cost and net realizable value.

The cost of inventories is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work-in-progress, costs include direct labor and appropriate share of overhead based on normal operating capacity. When inventories are sold, the carrying amount is recognized by us as an expense in the period in which the related revenue is recognized. We recognize any write-down of inventories to net realizable value as an expense in the period in which the write-down occurs. We recognize any loss of inventories as an expense in the period in which the loss occurs.

Net realizable value of our inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of a similar nature.

We reassess these estimates at the end of the relevant reporting period.

Impairment of Trade and Other Receivables

We initially recognize trade and other receivables when we have an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortized cost using the effective interest method less allowance for credit losses.

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Property, plant and equipment

Freehold land held for own use is not depreciated. Items of property, plant and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

| | <u>Estimated useful life</u> |
|--|------------------------------|
| Freehold land | Not depreciated |
| Leasehold land | Over the period of leases |
| Properties held for own use | 20 to 50 years |
| Machinery..... | 5 to 15 years |
| Furniture, fixtures and equipment..... | 4 to 10 years |
| Motor vehicles | 4 to 10 years |

Where parts of an item of property, plant and equipment have different useful lives, we allocate the cost on a reasonable basis between the parts and each part is depreciated separately.

Intangible Assets

Intangible assets acquired through business combination are stated at fair value cost as of the acquisition date less accumulated amortization, where the estimated useful life is finite, and impairment losses. We charge the amortization of intangible assets to our statement of profit or loss on a straight-line basis using the assets' estimated useful lives as follows:

| | <u>Estimated useful life</u> |
|-----------------------------|------------------------------|
| Customer relationship | 3 to 10 years |
| Patents..... | 8 to 10 years |
| Incomplete contracts..... | Remaining contract terms |
| Technical know-how..... | 10 years |

Deferred Expenses

Deferred expenses represent prepaid costs that are attributable to specific product development projects. These capitalized expenses include the cost of materials, direct labor and an appropriate proportion of overhead. Deferred expenses are stated at cost less accumulated amortization and impairment losses. We amortize deferred expenses on a straight-line basis over their estimated useful lives, which we set at five years for all such projects. We recognize other development expenses that are not attributable to specific projects as expenses in the period in which it is incurred.

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Income Tax

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

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. In addition, determining income tax provisions involves judgments on the future tax treatment of certain transactions. We evaluate tax implications of transactions and set up tax provisions accordingly. We reconsider such tax treatment periodically to take into account all changes in the applicable tax legislations.

We recognize deferred tax assets for temporary deductible differences. As we can only recognize deferred tax assets to the extent that it is probable that future taxable profit will be available against which such unused tax credit can be utilized, we are required to exercise judgment to assess the probability of future taxable profits. We constantly review our assessment and recognize additional deferred tax assets if it becomes probable that future taxable profits will allow such deferred tax assets to be recovered.

Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of our previously held equity interest in the acquiree; over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date. When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or group of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

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

With respect to goodwill, we estimate the recoverable amount on an annual basis to determine whether there is any indication of impairment. We account the recoverable amount of an asset (including goodwill) as the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the specific risks associated with the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently, which is considered a cash-generating unit. We recognize an impairment loss in our consolidated statements of profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses

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that are recognized by us in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit, or group of units, and then, to reduce the carrying amount of the other assets in the unit, or group of units, on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use if determinable.

In assessing the value in use, our key assumptions include the budgeted revenue, gross profit margin, growth rate based on historical financial performance of the acquired subsidiaries as well as our expectation on market development and the discount rate applied to future cash flow forecast. We apply cash flow projections based on a five-year financial budget and cash flow beyond the five-year period is extrapolated using an estimated annual growth rate of 2%. The cash flows are then discounted using certain pre-tax discount rates.

The estimated recoverable amount of the cash-generating units exceeded its carrying amount for Shenhai Group as at December 31, 2016 and 2017 by approximately HK\$143.5 million and HK\$153.8 million, respectively. The estimated recoverable amount of the cash-generating units exceeded its carrying amount for Cengiz Makina as at December 31, 2016, 2017 and 2018 by approximately HK\$100.7 million, HK\$142.5 million and HK\$162.2 million, respectively. Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for carrying amount to equal recoverable amount (in percentage of change)

| | 2016 | 2017 | 2018 |
|---|--------|--------|----------------|
| Shenhai Group | | | |
| Increase in discount rate | +32.6% | +33.1% | Not applicable |
| Decrease in budgeted EBITDA growth rate (average of next five years) | -29.9% | -34.1% | Not applicable |
| Cengiz Makina | | | |
| Increase in discount rate | +37.5% | +33.3% | +33.4% |
| Decrease in budgeted EBITDA growth rate (average of next five years) | -39.7% | -72.4% | -52.9% |

We perform annual impairment test on goodwill at the end of a reporting year. The recoverable amount of the cash-generating units based on the value-in-use calculations is higher than its carrying amount as at December 31, 2016 and 2017 for Shenhai Group. Accordingly, no impairment loss of goodwill has been recognized in the consolidated statements of profit or loss in 2016 and 2017. In performing the annual goodwill impairment test for Shenhai Group as at December 31, 2018, as the result of the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018 and the latest 2019 outlook caused the carrying amount of Shenhai Group to be below its recoverable amount as at December 31, 2018, we recorded an impairment loss of goodwill of HK\$141.2 million in consolidated statements of profit or loss.

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Based on the sensitivity analysis above and except for Shenhai Group as at December 31, 2018, we concluded that a reasonably possible change in key parameters would not cause the carrying amount of the cash-generating units to exceed its recoverable amount as at December 31, 2016, 2017 and 2018. As the CGU for Shenhai Group as at December 31, 2018 has been reduced to its recoverable amount of HK\$236.3 million, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

See Note 14 to Appendix I — “Accountants’ Report” to this prospectus for further details.

SELECTED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER DATA

The following table sets forth our selected consolidated statements of profit or loss and other data for the years indicated:

| | For the year ended December 31, | | | | | |
|--|---|-----------------|------------------|-----------------|------------------|-----------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (in thousands of HK\$, except percentages and per share data) | | | | | |
| Revenue | 2,547,214 | 100.0 | 3,049,143 | 100.0 | 3,749,113 | 100.0 |
| Cost of sales | (1,777,877) | (69.8) | (2,071,271) | (67.9) | (2,541,346) | (67.8) |
| Gross profit | 769,337 | 30.2 | 977,872 | 32.1 | 1,207,767 | 32.2 |
| Other revenue | 147,546 | 5.8 | 16,903 | 0.6 | 36,862 | 1.0 |
| Other net loss | (34,103) | (1.3) | (32,022) | (1.1) | (160,203) | (4.3) |
| Selling and distribution expenses..... | (107,519) | (4.2) | (121,768) | (4.0) | (162,254) | (4.3) |
| Administrative and other operating expenses | (287,308) | (11.3) | (284,640) | (9.3) | (347,740) | (9.3) |
| Profit from operations | 487,953 | 19.2 | 556,345 | 18.3 | 574,432 | 15.3 |
| Net finance costs | (80,407) | (3.2) | (76,262) | (2.5) | (87,050) | (2.3) |
| Share of profit of a joint venture | 3,255 | 0.1 | 1,411 | 0.0 | — | — |
| Profit before taxation | 410,801 | 16.1 | 481,494 | 15.8 | 487,382 | 13.0 |
| Income tax | (71,428) | (2.8) | (79,792) | (2.6) | (75,911) | (2.0) |
| Profit for the year | 339,373 | 13.3 | 401,702 | 13.2 | 411,471 | 11.0 |
| Attributable to: | | | | | | |
| Equity shareholders of the Company.. | 339,373 | | 401,559 | | 409,603 | |
| Non-controlling interest..... | — | | 143 | | 1,868 | |
| Profit for the year | 339,373 | | 401,702 | | 411,471 | |
| Basic earnings per share (HK\$)⁽¹⁾ ... | 265.6 | | 314.2 | | 320.5 | |
| Diluted earnings per share (HK\$)⁽¹⁾. | 265.6 | | 314.2 | | 320.5 | |

Note:

- (1) The calculation of earnings per share has not taken into account the proposed Capitalization Issue pursuant to the shareholders’ resolution passed at the Extraordinary General Meeting and the resolutions of our Directors dated June 14, 2019. The proposed Capitalization Issue has not become effective as of the date of this report and will only take place immediately prior to the completion of the Global Offering, details of which are set out in the section headed “Share Capital” included in the Prospectus.

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Non-IFRS Financial Measures

| | For the year ended December 31, | | |
|--|--|---------|---------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$, except percentages) | | |
| Adjusted NPAT ⁽¹⁾⁽²⁾ | 344,212 | 445,120 | 620,194 |
| Adjusted NPAT margin ⁽¹⁾⁽²⁾ | 13.5% | 14.6% | 16.5% |

Notes:

- (1) We define adjusted NPAT as net profit after tax for the year adjusted for the after-tax impact of the significant one-off items that have little or no bearing on our day-to-day operating performance, such as plants relocation related government subsidies and expenses, net gain arising from other financial liabilities, gain arising from business combination of Impross Impeller, impairment loss of goodwill of Shenhai Group and listing expenses, as well as the amortization and depreciation related to the purchase price allocation adjustments as a result from the acquisitions of Shenhai Group and Cengiz Makina in 2014. Adjusted NPAT margin is calculated by dividing adjusted NPAT by revenue. As we have implemented our “Twin Growth Engines” strategy, the amortization and depreciation expenses resulting from the acquisitions may have a significant impact on our IFRS net profit as compared with companies with similar operations but without such material acquisitions.
- (2) We present the unaudited non-IFRS financial measures to supplement our consolidated statements of profit or loss for the years ended December 31, 2016, 2017 and 2018 that were prepared in accordance with IFRS to provide additional information about our operating performance. We believe the non-IFRS financial measures are useful measures for our management and investors to assess our financial performance and financial condition as: (i) these are non-IFRS measures commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the investment casting and precision machining segments as the basis of operating performance; and (ii) during the track record period, we recorded a number of significant one-off income and expenses. Therefore, we believe that, for growing our company, such non-IFRS financial measures provide a more accurate reflection of our underlying operating performance.

The presentation of such unaudited non-IFRS financial measures is not intended to be read or considered in isolation from, as a substitute for, or as superior to, the financial information prepared and presented in accordance with IFRS. The non-IFRS financial measures we present may not be comparable to similarly titled financial measures of other companies as other companies may exclude items different from the items we exclude. Accordingly, the non-IFRS financial measures should be read in conjunction with our IFRS financial measures.

None of adjusted NPAT and adjusted NPAT margin is a recognized term under IFRS. These non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with IFRS. You should not consider our definition of adjusted NPAT in isolation or construe it as an alternative to profit for the year indicated or as an indicator of operating performance or any other standard measure under IFRS.

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See “— Non-IFRS Financial Measures” for reconciliations of our profit for the year under IFRS to our definition of adjusted NPAT.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We generate revenue primarily by selling products in three business segments, namely, investment casting, precision machining and sand casting, and providing services in the fourth business segment, namely, surface treatment.

In 2016, 2017 and 2018, the fluctuation of our revenue was mainly driven by the changing demand for our products or services in the relevant end-markets and geographic markets, as well as the sales generated from new products development and also new customers acquired. Our revenue is affected by our sales volumes and changes in our product or service prices. Sales volume of each of our four business segments is affected by the varying weight and size of our products and of the component parts that we provide surface treatment for, as well as the different specifications and requirements from customers in the diverse range of end-markets. On the other hand, we provide customized products or surface treatment services with a wide variety of specifications pursuant to specific customers’ needs, therefore, prices of our products and surface treatment services vary significantly. See “Business — Customers — Pricing Policy” for more details.

In 2016, 2017 and 2018, our revenue amounted to HK\$2,547.2 million, HK\$3,049.1 million and HK\$3,749.1 million, respectively.

Business Segments

The following table sets forth a breakdown of our revenue by business segment and the corresponding percentages for the years indicated:

| | For the year ended December 31, | | | | | |
|---------------------------|--|-----------------|------------------|-----------------|------------------|-----------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (in thousands of HK\$, except percentages) | | | | | |
| Revenue by segment | | | | | | |
| Investment casting..... | 1,151,868 | 45.2 | 1,333,139 | 43.7 | 1,581,166 | 42.2 |
| Precision machining..... | 713,759 | 28.0 | 953,087 | 31.3 | 1,215,210 | 32.4 |
| Sand casting | 325,745 | 12.8 | 429,858 | 14.1 | 601,842 | 16.0 |
| Surface treatment..... | 355,842 | 14.0 | 333,059 | 10.9 | 350,895 | 9.4 |
| | 2,547,214 | 100.0 | 3,049,143 | 100.0 | 3,749,113 | 100.0 |

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Investment casting. We manufacture investment casting components for sale to all of our major end-markets.

Precision machining. We manufacture precision-machined parts for sale mainly to the passenger car, commercial vehicle, hydraulic equipment and aerospace end-markets.

Sand casting. We manufacture sand casting products for sale mainly to the high horsepower engine, construction equipment, passenger car and agricultural equipment end-markets.

Surface treatment. We provide surface treatment services, including plating, coating and painting, to parts mainly used in the passenger car, aerospace and energy end-markets.

We have eliminated intra-group balances and transactions in full in preparing our financial information.

End-markets

During the Track Record Period, we made sales to our strategically targeted end-markets, including passenger car, commercial vehicle, high horsepower engine, hydraulic equipment, aerospace, construction equipment, agricultural equipment, recreational boat and vehicle, medical and energy. The following table sets forth a breakdown of our revenue by end-market and the corresponding percentages for the years indicated:

| | For the year ended December 31, | | | | | |
|--|--|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (in thousands of HK\$, except percentages) | | | | | |
| Revenue by end-market | | | | | | |
| Passenger car | 892,461 | 35.0 | 997,186 | 32.7 | 1,138,051 | 30.4 |
| Commercial vehicle | 414,766 | 16.3 | 502,343 | 16.5 | 607,421 | 16.2 |
| High horsepower engine | 225,095 | 8.8 | 257,787 | 8.5 | 379,452 | 10.1 |
| Hydraulic equipment | 164,718 | 6.5 | 257,035 | 8.4 | 311,760 | 8.3 |
| Aerospace | 144,482 | 5.7 | 195,977 | 6.4 | 281,937 | 7.5 |
| Construction equipment | 155,215 | 6.1 | 219,108 | 7.2 | 260,019 | 6.9 |
| Agricultural equipment | 147,328 | 5.8 | 192,237 | 6.3 | 235,437 | 6.3 |
| Recreational boat and vehicle | 78,047 | 3.1 | 82,893 | 2.7 | 99,802 | 2.7 |
| Medical | 65,514 | 2.6 | 72,289 | 2.4 | 82,858 | 2.2 |
| Energy | 18,326 | 0.7 | 24,147 | 0.8 | 31,339 | 0.8 |
| Other end-markets ⁽¹⁾ | 241,262 | 9.4 | 248,141 | 8.1 | 321,037 | 8.6 |
| | <u>2,547,214</u> | <u>100.0</u> | <u>3,049,143</u> | <u>100.0</u> | <u>3,749,113</u> | <u>100.0</u> |

Note:

- (1) Other end-markets mainly include products for pumps, bearings, locks, oil and gas equipment, fire and security equipment and food processing machinery.

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The fluctuations of our sales to selected key end-markets during the Track Record Period are explained below:

Passenger car. Our sales to the passenger car end-market increased by 11.7% in 2017 mainly driven by the continuous increase in sales of investment casting components and also increase in sales made to new customers, partly offset by lower surface treatment sales as a result of lower sales to our certain key customers in China. Our sales in 2018 further increased by 14.1% despite the unexpected downturn in the PRC automotive market starting from the fourth quarter of 2018, mainly due to significant increase in sales of precision machining components.

Commercial vehicle. Our sales to the commercial vehicle end-market increased strongly in 2017 by 21.1% mainly due to the ramp up of new product mass production for precision machining components like fuel systems, and was partly offset by lower sales in our investment casting segment components like emission systems. Our sales to the commercial vehicle end-market in 2018 further increased by 20.9%, mainly due to strong sales growth in our precision machining and investment casting components.

High horsepower engine and Hydraulic equipment. Our sales to the high horsepower engine and hydraulic equipment end-markets increased by 14.5% and 56.0% in 2017, respectively, and further increased by 47.2% and 21.3%, respectively in 2018. The changes in our sales are mainly driven by the changes in demand of these end-markets and largely consistent with the sales performance of our certain key customers.

Aerospace. Our sales to aerospace end-market increased by 35.6% and 43.9% in 2017 and 2018, respectively, mainly driven by the components used for air and fuel system, flight control system, aircraft engine systems and hydraulic systems.

Construction equipment. Our sales to construction equipment end-market increased strongly by 41.2% and 18.7% in 2017 and 2018, respectively, mainly due to significant increase in sales of our sand casting components.

Agricultural equipment. Our sales to agricultural equipment end-market grew strongly by 30.5% and 22.5% in 2017 and 2018, respectively, mainly as a result of strong sales growth to one of our key customers.

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Geographic Markets

During the Track Record Period, we made sales to the United States, Europe, China and other Asian countries. The following table sets forth a breakdown of our revenue by geographic market and the corresponding percentages for the years indicated:

| | For the year ended December 31, | | | | | |
|-------------------------------------|--|-----------------|------------------|-----------------|------------------|-----------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | (in thousands of HK\$, except percentages) | | | | | |
| Revenue by geographic market | | | | | | |
| United States | 1,046,036 | 41.1 | 1,253,268 | 41.1 | 1,575,072 | 42.0 |
| Europe | 880,313 | 34.6 | 1,049,787 | 34.4 | 1,222,419 | 32.6 |
| China | 561,113 | 22.0 | 668,722 | 21.9 | 859,470 | 22.9 |
| Asia (excluding China)..... | 59,752 | 2.3 | 77,366 | 2.6 | 92,152 | 2.5 |
| | <u>2,547,214</u> | <u>100.0</u> | <u>3,049,143</u> | <u>100.0</u> | <u>3,749,113</u> | <u>100.0</u> |

Our sales to the United States, Europe, China and other Asian countries are affected by fluctuations in customers' demands.

- *United States.* Our sales to the United States increased by 19.8% from 2016 to 2017, mainly because of surging demands from customers for passenger car, aerospace and construction equipment components. In particular, the increase in sales in aerospace components was mainly due to sales of new components for air and fuel system, aircraft engine systems, hydraulic systems and flight control systems. Our sales to the United States increased by 25.7% in 2018, mainly due to significant sales growth to customers for commercial vehicle components used for fuel systems and exhaust systems, aerospace components used for air and fuel systems, flight control systems, aircraft engine systems, hydraulic systems, brackets used in agricultural equipment, and construction equipment components used for engine components and exhaust systems.
- *Europe.* Our sales to Europe increased by 19.3% from 2016 to 2017, mainly because of strong sales of commercial vehicle components for fuel systems and high horsepower engine end-markets components for engine blocks. Our sales further increased by 16.4% in 2018, primarily because of strong sales growth to customers for passenger car components like engine components and exhaust systems and high horsepower engine components like engine blocks. The major European countries contributing to our revenue are Germany, Turkey, the United Kingdom and Hungary.
- *China.* Our sales to China increased by 19.2% from 2016 to 2017, mainly due to the increasing demands for hydraulic equipment components like spools for hydraulic

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valves. Our sales in 2018 further increased by 28.5%, primarily because of significant sales growth to customers of high horsepower engine components like engine blocks and hydraulic equipment components like spools for hydraulic valves.

- *Asia (excluding China)*. Our sales to other Asian countries increased by 29.5% from 2016 to 2017 and then further by 19.1% in 2018, mainly due to an increase in sales of medical and hydraulic equipment components, as our key customers from the United States placed more orders with us for its affiliated companies in Asian countries.

Cost of Sales, Gross Profit and Gross Profit Margin

The following table sets forth our revenue, cost of sales and gross profit and the corresponding percentages for the years indicated:

| | For the year ended December 31, | | | | | |
|--|--|--------------------|-----------------------|--------------------|-------------------------|--------------------|
| | 2016 | | 2017 | | 2018 | |
| | Amount | % | Amount | % | Amount | % |
| | (in thousands of HK\$, except percentages) | | | | | |
| Revenue | 2,547,214 | 100.0 | 3,049,143 | 100.0 | 3,749,113 | 100.0 |
| Cost of sales | | | | | | |
| Raw materials and consumables used | (562,156) | (22.1) | (730,842) | (24.0) | (929,474) | (24.8) |
| Staff costs | (546,522) | (21.5) | (587,622) | (19.3) | (688,525) | (18.4) |
| Depreciation | (177,963) | (7.0) | (187,961) | (6.1) | (214,446) | (5.7) |
| Fuel expenses and utilities | (154,931) | (6.1) | (167,205) | (5.5) | (198,527) | (5.3) |
| Outsourcing fees | (125,621) | (4.9) | (129,749) | (4.3) | (190,903) | (5.1) |
| Research and development expenses | (56,787) | (2.2) | (78,975) | (2.6) | (101,817) | (2.7) |
| Amortization of deferred expenses | (60,640) | (2.4) | (71,065) | (2.3) | (86,020) | (2.3) |
| Others | (93,257) | (3.6) | (117,852) | (3.8) | (131,634) | (3.5) |
| | <u>(1,777,877)</u> | <u>(69.8)</u> | <u>(2,071,271)</u> | <u>(67.9)</u> | <u>(2,541,346)</u> | <u>(67.8)</u> |
| Gross profit | <u>769,337</u> | <u>30.2</u> | <u>977,872</u> | <u>32.1</u> | <u>1,207,767</u> | <u>32.2</u> |

In 2016, 2017 and 2018, our cost of sales was HK\$1,777.9 million, HK\$2,071.3 million and HK\$2,541.3 million, respectively. The principal components of our cost of sales include:

- *Raw materials and consumables used*. Raw materials and consumables used primarily consist of our cost of raw materials, such as stainless steel, alloy steel and iron as well as our cost of consumables used in production such as zircon sand, zirconium powder, wax and packaging materials. The total consumption volume of raw materials is affected by our production volume as well as production efficiency. In general, production with larger batches will enhance production efficiency as the costs of certain consumables are fixed in the production processes.

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- *Staff costs.* Staff costs include salaries, bonuses and other benefits for our production workers.
- *Depreciation.* Depreciation consists of depreciation on the production equipment, facilities and other property, plant and equipment used in our production.
- *Fuel expenses and utilities.* Fuel expenses and utilities primarily consist of cost of natural gas, electricity and water used in our production.
- *Outsourcing fees.* Outsourcing fees consist of fees paid to third-party subcontractors to whom we outsource part of our production process, principally those non-core and relatively simple processes.
- *Research and development expenses.* Research and development expenses primarily include raw materials costs, salaries, bonuses and other benefits for our research and development employees and other overhead costs incurred for our research and development activities.
- *Amortization of deferred expenses.* Deferred expenses are capitalized in relation to direct costs associated with our specific product development projects. We amortize deferred expenses over a period of five years.
- *Others.* Others primarily include import tariffs, maintenance expenses, other taxes and other miscellaneous expenses.

The following table sets forth a breakdown of our gross profit and gross profit margin for each of our business segments for the years indicated:

| | For the year ended December 31, | | |
|--|--|---------|---------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$, except percentages) | | |
| Gross profit and gross profit margin by segment | | | |
| <i>Investment casting</i> | | | |
| gross profit | 353,260 | 433,716 | 516,341 |
| gross profit margin | 30.7% | 32.5% | 32.7% |
| <i>Precision machining</i> | | | |
| gross profit | 194,275 | 297,338 | 387,803 |
| gross profit margin | 27.2% | 31.2% | 31.9% |
| <i>Sand casting</i> | | | |
| gross profit | 103,252 | 148,831 | 198,703 |
| gross profit margin | 31.7% | 34.6% | 33.0% |
| <i>Surface treatment</i> | | | |
| gross profit | 118,550 | 97,987 | 104,920 |
| gross profit margin | 33.3% | 29.4% | 29.9% |

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Other Revenue

In 2016, 2017 and 2018, our other revenue was HK\$147.5 million, HK\$16.9 million and HK\$36.9 million, respectively. The following table sets forth a breakdown of our other revenue for the years indicated:

| | For the year ended December 31, | | |
|----------------------------|---------------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Other revenue | | | |
| Rental income..... | 2,185 | 2,401 | 3,291 |
| Government subsidies | | | |
| — relocation related | 118,906 | — | — |
| — other subsidies | 22,681 | 12,248 | 30,128 |
| Others | 3,774 | 2,254 | 3,443 |
| | 147,546 | 16,903 | 36,862 |

Rental income of 2016 and 2017 mainly related to the leasing of facilities to Impress Impeller, the sole joint venture we had during the Track Record Period until our acquisition of its additional 16% equity interest in August 2017. The rental income of 2018 increased as we subleased certain plant area to other third party factories of our Shenhai Group plant.

Government subsidies primarily represents certain one-time discretionary subsidies from the local PRC governments in relation to the relocation of our Plant 3 and as encouragement for technology development, environment protection, employment stabilization and contribution to local economy. Certain of the government subsidies were subject to the fulfillment of further conditions, mainly those granted in connection with our plant relocation. There were no unfilled conditions and other contingencies relating to these government grants that had been recognized.

Other Net Loss

Other loss primarily consist of expense incurred and property, plant and equipment disposed for the relocation of our Plant 3 in China, net gain arising from other financial liabilities, gain arising from business combination of a joint venture, net exchange gain or loss

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arising from our ordinary course of business, net loss or gain on disposal of property, plant and equipment and impairment loss of goodwill of Shenhai Group. The following table sets forth a breakdown of our other net loss for the years indicated:

| | For the year ended December 31, | | |
|--|---------------------------------|------------------------|-------------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Other net loss | | | |
| Expense incurred and property, plant and equipment disposed for relocation | (55,996) | — | — |
| Net gain arising from other financial liabilities | 8,805 | — | — |
| Gain arising from business combination of a joint venture | — | 6,233 | — |
| Net exchange gain/(loss)..... | 13,667 | (36,070) | (17,859) |
| Net (loss)/gain on disposal of property, plant and equipment | (285) | (2,245) | 504 |
| Impairment loss of goodwill | — | — | (141,178) |
| Others | (294) | 60 | (1,670) |
| | <u>(34,103)</u> | <u>(32,022)</u> | <u>(160,203)</u> |

In 2016, 2017 and 2018, we recorded other net loss of HK\$34.1 million, HK\$32.0 million and HK\$160.2 million, respectively.

- *Expense incurred and property, plant and equipment disposed for relocation.* We incurred relocation expenses in the amount of HK\$56.0 million in 2016 mainly for the completion of the relocation of our Plant 3. The relocation was because the original site for the plant was re-zoned for commercial use by local government. We recognized conditional subsidy of HK\$118.9 million mainly for the relocation of Plant 3. See “— Principal Components of Consolidated Statements of Profit or Loss — Other revenue.”
- *Net gain arising from other financial liabilities.* We recorded a gain of HK\$8.8 million in 2016 mainly from the financial instruments transacted to hedge our Renminbi currency fluctuation against US dollars. No further hedging contracts were entered into subsequent to May 31, 2016. For more details of our foreign exchange hedging contracts, see “Quantitative and Qualitative Analysis of Market Risks — Foreign Currency Risk — Historical Hedging Arrangements.”
- *Gain arising from business combination of a joint venture.* In August 2017, we acquired additional 16% equity interest in our joint venture, Impress Impeller, through capital injection for a consideration of RMB11.2 million. A gain of HK\$6.2 million was recognized as a result of deemed disposal of Impress Impeller prior to our consolidation of the results of Impress Impeller.

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- *Net exchange gain/(loss).* We recorded a net exchange gain of HK\$13.7 million in 2016 mainly arising from translation of our Renminbi denominated trade payables due to the depreciation of Renminbi in 2016 and revaluation of Euro denominated bank loans due to depreciation of Euro in 2016 and an exchange loss of HK\$36.1 million in 2017 mainly as a result of the revaluation of Euro denominated bank loans due to appreciation of Euro as well as translation of our Renminbi denominated trade payables due to the appreciation of Renminbi. We recorded a net exchange loss of HK\$17.9 million in 2018, mainly as a result of the revaluation of our Turkish Lira denominated net assets due to depreciation of Turkish Lira.
- *Impairment loss of goodwill.* We recorded an impairment loss of goodwill of HK\$141.2 million in 2018 in relation to Shenhai Group as a result of the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018 and the latest 2019 outlook.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of freight cost for the delivery of our products to customers, staff costs for our sales and marketing personnel, customs duties, commissions to sales representatives, rental costs and travel expenses. The following table sets forth a breakdown of our selling and distribution expenses for the years indicated:

| | For the year ended December 31, | | |
|--|---------------------------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Selling and distribution expenses | | | |
| Freight cost | 40,687 | 47,919 | 73,984 |
| Staff costs | 34,884 | 36,533 | 38,112 |
| Customs duties | 12,462 | 14,478 | 24,903 |
| Commissions | 5,700 | 7,506 | 8,396 |
| Rental..... | 6,422 | 6,640 | 6,852 |
| Travel expenses..... | 1,899 | 1,945 | 2,132 |
| Others ⁽¹⁾ | 5,465 | 6,747 | 7,875 |
| | 107,519 | 121,768 | 162,254 |

Note:

- (1) Including advertising, storage, entertainment and other miscellaneous expenses related to our selling and distribution activities.

In 2016, 2017 and 2018, our selling and distribution expenses were HK\$107.5 million, HK\$121.8 million and HK\$162.3 million, respectively, representing 4.2%, 4.0% and 4.3%, respectively, of our revenue.

- *Freight cost.* Our freight cost increased in 2017 and 2018 as a result of the increase in sales volume.

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- *Staff costs.* Our staff costs increased during the Track Record Period primarily because we hired more staff as a result of our continuing business growth.
- *Customs duties.* Our customs duties increased during the Track Record Period as a result of the share of additional US tariffs borne by the Group since July 2018 which amounted to HK\$11.8 million.

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily include staff costs for our management and administrative staff, amortization of intangible assets from business combinations, depreciation of property, plant and equipment, listing expenses, legal and professional fees, other taxes, utilities, rental and bad debt provision. The following table sets forth a breakdown of our administrative and other operating expenses for the years indicated:

| | For the year ended December 31, | | |
|--|---------------------------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Administrative and other operating expenses | | | |
| Staff costs | 94,506 | 102,669 | 123,803 |
| Amortization..... | 66,119 | 42,498 | 14,461 |
| Depreciation | 37,281 | 43,054 | 44,872 |
| Listing expenses | — | 4,330 | 48,000 |
| Legal and professional fees | 12,469 | 11,525 | 15,123 |
| Other taxes..... | 13,616 | 14,909 | 18,013 |
| Utilities | 8,502 | 9,544 | 10,046 |
| Rental..... | 5,388 | 5,964 | 7,233 |
| Bad debt provision | 15,906 | 10,699 | 20,722 |
| Others ⁽¹⁾ | 33,521 | 39,448 | 45,467 |
| | 287,308 | 284,640 | 347,740 |

Note:

- (1) Including office expenses, insurance expenses, telephone and postage, travel expenses, maintenance and other miscellaneous expenses related to our administrative activities.

In 2016, 2017 and 2018, our administrative and other operating expenses were HK\$287.3 million, HK\$284.6 million and HK\$347.7 million, respectively, representing 11.3%, 9.3% and 9.3%, respectively, of our revenue.

- *Staff costs.* Our staff costs increased during the Track Record Period primarily because we hired more staff in anticipation of our continuing business growth.

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- *Amortization.* Our amortization on intangible assets are in connection with the purchase price allocation adjustment on customer relationships, patents, incomplete contracts and technical know-how. The amortization decreased during the Track Record Period because some of the incomplete contracts and customer relationship have been fully amortized during the second half of 2017.
- *Depreciation.* Depreciation increased during the Track Record Period mainly due to the addition of property, plant and equipment as we continued to expand our production plants.
- *Listing expenses.* We recorded listing expenses of HK\$4.3 million in 2017 and HK\$48.0 million in 2018 in connection with our current efforts in preparation of proposed listing in 2019.
- *Bad debt provision.* Bad debt provision decreased from 2016 to 2017 as overdue receivables balance longer than 12 months decreased. The provision increased from 2017 to 2018, primarily due to the addition of provision as a result of slight extension of overdue accounts receivable amount as of December 31, 2018 and also increase in bad debt expenses in our Shenhai Group.

Net Finance Costs

Net finance costs consist of interest expenses on bank loans and obligations under finance leases, less interest income from bank deposits and borrowing costs capitalized as construction in progress. The following table sets forth the principal components of our net finance costs for the years indicated:

| | For the year ended December 31, | | |
|--|---------------------------------|----------------------|----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Net finance costs | | | |
| Interest income from bank deposits | (743) | (2,130) | (839) |
| Interest expenses on bank loans and obligations under finance leases | 89,168 | 81,653 | 91,724 |
| Less: borrowing costs capitalized as construction in progress | <u>(8,018)</u> | <u>(3,261)</u> | <u>(3,835)</u> |
| | <u>81,150</u> | <u>78,392</u> | <u>87,889</u> |
| | <u>80,407</u> | <u>76,262</u> | <u>87,050</u> |

As of December 31, 2016, 2017 and 2018, we had total borrowings of HK\$1,909.2 million, HK\$1,893.9 million and HK\$1,930.3 million, respectively. The interest rates of short-term borrowings ranged from 1.5% to 4.8% as of December 31, 2016, from 1.4% to 5.2% as of December 31, 2017 and from 1.3% to 4.8% as of December 31, 2018, and the interest rates of long-term borrowings ranged from 1.9% to 5.2% as of December 31, 2016, from 1.3% to 5.2% as of December 31, 2017 and from 1.3% to 5.2% as of December 31, 2018.

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Share of Profit of a Joint Venture

The share of profit of a joint venture was mainly in connection with the performance of Impress Impeller. In 2011, we, through our wholly owned subsidiary Impro Yixing, incorporated Impress Impeller with Ross Casting. Despite our 51% equity interest in Impress Impeller in 2016, we considered Impress Impeller as a joint venture rather than a subsidiary due to the lack of control by either shareholder over the shareholders' meeting or its board of directors. We acquired additional 16% equity interest in Impress Impeller for a consideration of RMB11.2 million in August 2017. Upon the completion of the acquisition, we have the right to appoint the majority of the Directors and to unilaterally direct the operating activities of Impress Impeller by controlling the board of directors and Impress Impeller became our 67%-owned subsidiary.

The following table sets out the revenue, gross profit, net profit, gross profit margin and net profit margin of Impress Impeller in 2016:

| | 2016 |
|--------------------------|---|
| | (in thousands of HK\$, except for percentages) |
| Revenue | 24,521 |
| Gross Profit | 7,798 |
| Gross Profit Margin..... | 31.8% |
| Net Profit | 6,382 |
| Net Profit Margin..... | 26.0% |

Income Tax

We incurred income tax expenses of HK\$71.4 million, HK\$79.8 million and HK\$75.9 million in 2016, 2017 and 2018, respectively, representing an effective income tax rate of 17.4%, 16.6% and 15.6%, respectively.

During the Track Record Period, the income tax rates applicable to our subsidiaries in our major jurisdictions are as follows:

| Country/region | Income tax rates |
|----------------|------------------|
| PRC | 15%-25% |
| Hong Kong | 16.5% |
| United States | 27.5%-39.2% |
| Germany | 29.5%-32.6% |
| Luxembourg | 26.0%-29.2% |
| Turkey | 20%-22% |

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During the Track Record Period, five of our PRC subsidiaries obtained qualification as high-tech enterprises and were entitled to a preferential income tax rate of 15%. Qualifications of two of the five subsidiaries shall expire in 2019 and we intend to renew our qualifications for another three years. The qualifications of the other three subsidiaries shall expire in 2020 and 2021 and we also plan to renew our qualifications for these three subsidiaries.

According to Turkey Corporate Income Tax Law, Cengiz Makina was entitled to investment tax incentives arising from qualifying investment that is subject to reduced Turkey Corporate Income Tax rate. In 2018, investment tax incentives reduced the income expense by HK\$36.6 million, which included the recognition of HK\$27.2 million deferred tax asset in respect of the forecast income tax reduction to be realized in 2019.

For details of our tax rates in the relevant jurisdictions and the preferential tax treatments we enjoyed, see Note 7 to Appendix I — “Accountants’ Report” to this prospectus. The fluctuation of our effective income tax rate in these years was primarily due to changes in certain PRC and Turkey preferential tax treatments available to our major operating subsidiaries, and as a result of changes to non-taxable or non-deductible items such as fair value gains or losses from foreign exchange hedging contracts and impairment loss of goodwill.

As of December 31, 2018, we had no delinquency in tax payments with the relevant tax authorities, and we were not aware of any outstanding or potential disputes with such tax authorities.

NON-IFRS FINANCIAL MEASURES

We present adjusted NPAT to supplement our consolidated statements of profit or loss for the years ended December 31, 2016, 2017 and 2018 that were prepared in accordance with IFRS to provide additional information about our operating performance. We believe the non-IFRS financial measures are useful measures for our management and investors to assess our financial performance and financial condition as: (i) they are non-IFRS measures commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the investment casting and precision machining segments as the basis of operating performance; and (ii) during the Track Record Period, we recorded a number of one-off income and expenses. In particular, as we have implemented our “Twin Growth Engines” strategy, the amortization and depreciation expenses related to the purchase price allocation adjustments and the impairment loss of goodwill, which arise as a result of our acquisitions of Shenhai Group and Cengiz Makina and the impairment loss of goodwill may have a significant impact on our IFRS net profit as compared with companies with similar operations but without such material acquisitions. These acquisitions are non-recurring in nature. Similarly, the plants relocation related government subsidies, the net gain arising from other financial liabilities and the gain arising from business combination of a joint venture are also one-off items and non-recurring in nature. Therefore, we believe that, for growing our company, such non-IFRS financial measures provide a more accurate reflection of our underlying operating performance.

The presentation of such non-IFRS financial measures is not intended to be read or considered in isolation from, as a substitute for, or as superior to, the financial information prepared and presented in accordance with IFRS. The non-IFRS financial measures we

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present may not be comparable to similarly titled financial measures of other companies as other companies may exclude items different from the items we exclude. Accordingly, the non-IFRS financial measures should be read in conjunction with our IFRS financial measures.

None of adjusted NPAT and adjusted NPAT margin is a recognized term under IFRS. These non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with IFRS. You should not consider our definition of adjusted NPAT in isolation or construe it as an alternative to profit for the year indicated or as an indicator of operating performance or any other standard measure under IFRS.

Adjusted NPAT

Adjusted NPAT refers to profit after tax adjusted for certain one-off items.

The following table reconciles our profit after tax under IFRS to our definition of adjusted NPAT for the years indicated:

| | For the year ended December 31, | | |
|--|--|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$, except percentages) | | |
| Profit after tax | 339,373 | 401,702 | 411,471 |
| <i>Adjustments after taxation</i> | | | |
| Plants relocation related government subsidies, net of expenses, net of tax impact..... | (53,474) | — | — |
| Net gain arising from other financial liabilities | (8,805) | — | — |
| Gain arising from business combination of a joint venture | — | (6,233) | — |
| Listing expenses | — | 4,330 | 48,000 |
| Impairment loss of goodwill | — | — | 141,178 |
| Amortization and depreciation related to purchase price allocation adjustments, net of tax impact..... | 67,118 | 45,321 | 19,545 |
| | <u>4,839</u> | <u>43,418</u> | <u>208,723</u> |
| Adjusted NPAT | <u>344,212</u> | <u>445,120</u> | <u>620,194</u> |
| Revenue | 2,547,214 | 3,049,143 | 3,749,113 |
| Adjusted NPAT margin ⁽¹⁾ | 13.5% | 14.6% | 16.5% |

Note:

(1) Adjusted NPAT margin is calculated by dividing adjusted NPAT by revenue.

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RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2018 and December 31, 2017

Revenue

Our revenue increased by 23.0% from HK\$3,049.1 million in 2017 to HK\$3,749.1 million in 2018, primarily due to increase in sales in all four business segments, driven by strong demands particularly from customers in passenger car, high horsepower engine, commercial vehicle, aerospace, hydraulic equipment and agricultural equipment end-markets.

- *Investment Casting.* Revenue from our investment casting segment increased by 18.6% from HK\$1,333.1 million in 2017 to HK\$1,581.2 million in 2018, mainly due to increase in sales of components for aircraft engine systems and hydraulic systems in the aerospace end-market, engine components and exhaust systems in the commercial vehicle end-market and new components for brackets used in agricultural equipment end-market, and also engine components and exhaust systems used in the passenger car end-market. The increase in sales was driven by the high demand from existing customers of the aerospace and commercial vehicle end-markets, particularly in the U.S..
- *Precision machining.* Revenue from our precision machining segment increased by 27.5% from HK\$953.1 million in 2017 to HK\$1,215.2 million in 2018, mainly due to increase in sales of components for fuel systems in commercial vehicle and passenger car end-market, spools for hydraulic valves in hydraulic equipment end-market and also air and fuel systems, aircraft engine systems and hydraulic systems used in aerospace end-market. The increase in sales was contributed by continued strong demand from a few major customers of commercial vehicle end-markets in the U.S. and Europe and hydraulic equipment end-market in the PRC.
- *Sand casting.* Revenue from our sand casting segment increased by 40.0% from HK\$429.9 million in 2017 to HK\$601.8 million in 2018, mainly due to increase in sales of components for engine blocks and exhaust systems in high horsepower engine end-market, and engine components used in construction end-market, and medical diagnosis equipment used in medical end-market. The increase in sales was driven by increasing demand from existing customers, especially customers of high horsepower engine end-market in Europe and the PRC, customers of construction equipment in the U.S. and customers of medical end-market in Asia, including the PRC.
- *Surface treatment.* Revenue from our surface treatment segment increased by 5.4% from HK\$333.1 million in 2017 to HK\$350.9 million in 2018, mainly due to increase in demand of Chinese customers of the passenger car end-market for our plating service in the first half of 2018. The increase in sales was driven by growing demand from existing customers in the PRC.

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Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 22.7% from HK\$2,071.3 million in 2017 to HK\$2,541.3 million in 2018. The increase in our cost of sales was mainly due to:

- *Raw materials and consumables used.* The costs for raw materials and consumables used by us increased by 27.2% from HK\$730.8 million in 2017 to HK\$929.5 million in 2018, mainly due to sales growth and to certain extent the increase in prices of stainless steel, alloy steel and other consumables.
- *Staff costs.* Our staff costs increased by 17.2% from HK\$587.6 million in 2017 to HK\$688.5 million in 2018, primarily due to increase in our headcount to cope with business growth.
- *Depreciation.* Our depreciation increased by 14.1% from HK\$188.0 million in 2017 to HK\$214.4 million in 2018, primarily due to addition of production machinery.
- *Fuel expenses and utilities.* Our fuel expenses and utilities increased by 18.7% from HK\$167.2 million in 2017 to HK\$198.5 million in 2018, which was in line with our increased production activities and business growth.
- *Outsourcing fees.* Outsourcing fees increased by 47.2% from HK\$129.7 million in 2017 to HK\$190.9 million in 2018, which was due to our increased production activities and to certain extent the stronger than expected business growth led to more outsourced production to cope with customer demand.
- *Research and development expenses.* Our research and development expenses increased by 28.9% from HK\$79.0 million in 2017 to HK\$101.8 million in 2018, mainly attributable to increase in research spending due to the increase in the total number of our research and development initiatives, in particular in China and Turkey.
- *Amortization of deferred expenses.* The amortization of our deferred expenses increased by 21.0% from HK\$71.1 million in 2017 to HK\$86.0 million in 2018, mainly due to increase in our deferred expenses as we continued to develop new products such as components for electric vehicles and high horsepower engines.

Our gross profit increased by 23.5% from HK\$977.9 million in 2017 to HK\$1,207.8 million in 2018. Our gross profit margin increased from 32.1% in 2017 to 32.2% in 2018, principally due to the economies of scale resulted from strong growth in our precision machining, partially offset by the increase in raw material and consumable prices particularly in investment casting and sand casting.

- *Investment casting.* The gross profit margin for this segment increased from 32.5% in 2017 to 32.7% in 2018, primarily due to strong demand for aerospace products with high gross profit margin, partially offset by increase in raw materials and consumable prices.

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- *Precision machining.* The gross profit margin for this segment increased from 31.2% in 2017 to 31.9% in 2018, primarily due to significant sales growth of commercial vehicle and hydraulic equipment products which resulted in a decrease in unit cost and hence higher margin.
- *Sand casting.* The gross profit margin for this segment decreased from 34.6% in 2017 to 33.0% in 2018, primarily due to the increase in raw material prices despite the significant sales growth of high horsepower engine and construction equipment products.
- *Surface treatment.* The gross profit margin for this segment increased from 29.4% in 2017 to 29.9% in 2018, primarily due to higher sales.

Other Revenue

Our other revenue increased from HK\$16.9 million in 2017 to HK\$36.9 million in 2018, mainly due to increase in government subsidies recognized in relation to technology development.

Other Net Loss

We recorded other net loss of HK\$32.0 million and HK\$160.2 million in 2017 and 2018, respectively. The other net loss in 2018 was primarily due to the impairment loss of goodwill of Shenhai Group and the exchange loss recorded mainly due to the depreciation of Turkish Lira in 2018.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 33.3% from HK\$121.8 million in 2017 to HK\$162.3 million in 2018, mainly due to a significant increase in the maritime and air freight cost to cope with stronger than expected customer demand. The custom duties increased by HK\$10.4 million in 2018 mainly due to the launch of additional US tariffs since July 2018. The commissions expense increased by 11.9%, due to the increase in sales generated by third party sales representative. Staff costs also increased by 4.3% as we strengthened our direct sales force. Our selling and distribution expenses as a percentage of total revenue increased from 4.0% in 2017 to 4.3% in 2018, mainly due to the higher freight cost and the imposition of U.S. additional tariffs since July 2018.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by 22.2% from HK\$284.6 million in 2017 to HK\$347.7 million in 2018, mainly due to the increase in listing expenses of HK\$43.7 million in connection with our preparation for listing, the increase in staff cost of HK\$21.1 million to cope with our business growth and expenses incurred in relation to our 20th anniversary celebration in 2018, and the increase in bad debt provision of HK\$10.0 million

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mainly in association with the slight extension of overdue amount receivable as of December 31, 2018 and also increased bad debt expenses in our Shenhai Group, partially offset by a decrease of HK\$28.0 million in amortization of intangible assets from previous acquisitions as some of the customer relationship and incomplete contracts were fully amortized in the second half of 2017.

Net Finance Costs

Net finance costs increased from HK\$76.3 million in 2017 to HK\$87.1 million in 2018, primarily due to increase in bank borrowings and LIBOR in 2018.

Income Tax

Income tax expense decreased from HK\$79.8 million in 2017 to HK\$75.9 million in 2018, primarily because Cengiz Makina was entitled to local investment tax incentives, resulting in a reduction in income tax rate in 2018. As a result, the Group recorded a lower income tax expense despite increase in profit before taxation in 2018.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit increased by 2.4% from HK\$401.7 million in 2017 to HK\$411.5 million in 2018. Our net profit margin decreased from 13.2% in 2017 to 11.0% in 2018, primarily due to the recognition of impairment loss of goodwill and listing expenses in 2018.

Comparison of Years Ended December 31, 2017 and December 31, 2016

Revenue

Our revenue increased by 19.7% from HK\$2,547.2 million in 2016 to HK\$3,049.1 million in 2017, primarily due to the increase in sales of investment casting, precision machining and sand casting products, primarily attributable to the stronger demands from customers in passenger car, commercial vehicle, hydraulic equipment, construction equipment and aerospace end-markets.

- *Investment casting.* Revenue from our investment casting segment increased by 15.7% from HK\$1,151.9 million in 2016 to HK\$1,333.1 million in 2017, mainly due to the continuous increase in sales of components used in fuel systems, turbo chargers, EGR systems in the passenger car end-market and new components for aircraft engine systems and hydraulic systems in the aerospace end-market.
- *Precision machining.* Revenue from our precision machining segment increased by 33.5% from HK\$713.8 million in 2016 to HK\$953.1 million in 2017, mainly due to the mass production of new components for fuel injection system used in commercial vehicle and strong demand for our existing products in hydraulic equipment end-market.

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- *Sand casting.* Revenue from our sand casting segment increased by 32.0% from HK\$325.7 million in 2016 to HK\$429.9 million in 2017, mainly due to the significant increase in demand in our construction equipment and high horsepower engine end-markets which is consistent with the significant sales growth of one of our key customers.
- *Surface treatment.* Revenue from our surface treatment segment decreased by 6.4% from HK\$355.8 million in 2016 to HK\$333.1 million in 2017, mainly due to lower demand from certain Chinese customers of the passenger car and energy end-markets for our plating service.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by 16.5% from HK\$1,777.9 million in 2016 to HK\$2,071.3 million in 2017. The increase in our cost of sales was mainly due to:

- *Raw materials and consumables used.* The costs for raw materials and consumables used by us increased by 30.0% from HK\$562.2 million in 2016 to HK\$730.8 million in 2017, mainly due to sales growth and to certain extent the increase in prices of stainless steel and alloy steel.
- *Staff costs.* Our staff costs increased by 7.5% from HK\$546.5 million in 2016 to HK\$587.6 million in 2017, primarily due to increase in our headcount to cope with business growth.
- *Depreciation.* Our depreciation increased by 5.6% from HK\$178.0 million in 2016 to HK\$188.0 million in 2017, primarily due to addition of production machinery.
- *Fuel expenses and utilities.* Our fuel expenses and utilities increased by 7.9% from HK\$154.9 million in 2016 to HK\$167.2 million in 2017, which was in line with our increased production activities and business growth.
- *Outsourcing fees.* Outsourcing fees increased by 3.3% from HK\$125.6 million in 2016 to HK\$129.7 million in 2017, which was generally in line with our increased production activities and business growth.
- *Research and development expenses.* Our research and development expenses increased by 39.1% from HK\$56.8 million in 2016 to HK\$79.0 million in 2017, mainly attributable to the increase in research spending due to the increase in the total number of our research and development initiatives, in particular in China and Turkey.
- *Amortization of deferred expenses.* The amortization of our deferred expenses increased by 17.3% from HK\$60.6 million in 2016 to HK\$71.1 million in 2017, mainly due to increase in our deferred expense balance as we continued to develop new products such as components for agricultural equipment and multi-functional machinery kits.

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Our gross profit increased by 27.1% from HK\$769.3 million in 2016 to HK\$977.9 million in 2017. Our gross profit margin increased from 30.2% in 2016 to 32.1% in 2017, principally due to the substantial growth in demand in our investment casting, precision machining and sand casting products while increase in our cost of sales was less than our sales due to economies of scale, partially offset by a decrease in gross profit margin of surface treatment segment due to lower sales and cost pressure.

- *Investment casting.* The gross profit margin for this segment increased from 30.7% in 2016 to 32.5% in 2017, primarily due to increase in demand for aerospace products with higher gross profit margin.
- *Precision machining.* The gross profit margin increased from 27.2% in 2016 to 31.2% in 2017, mainly due to significant sales growth of commercial vehicle and hydraulic equipment products which resulted in a decrease in unit cost and hence higher margin.
- *Sand casting.* The gross profit margin increased from 31.7% in 2016 to 34.6% in 2017, primarily due to growing economies of scale resulting from the strong demand in construction equipment and high horsepower engine products and hence higher margin.
- *Surface treatment.* The gross profit margin decreased from 33.3% in 2016 to 29.4% in 2017, mainly because of a decrease in sales along with increase in production cost, such as material and utilities cost.

Other Revenue

Our other revenue decreased from HK\$147.5 million in 2016 to HK\$16.9 million in 2017, mainly due to a decrease in government subsidies recognized as the relocation of our Plant 3 was completed in 2016.

Other Net Loss

We recorded other net loss of HK\$34.1 million and HK\$32.0 million in 2016 and 2017, respectively. The other net loss in 2017 was primarily due to exchange loss mainly as a result of the translation loss of Euro denominated bank loans due to appreciation of Euro and the translation loss of Renminbi denominated trade payables as a result of the appreciation of Renminbi in 2017. Other net loss incurred in 2016 was primarily due to the expense incurred and property, plant and equipment disposed for the relocation of our Plant 3 in the amount of HK\$56.0 million.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 13.3% from HK\$107.5 million in 2016 to HK\$121.8 million in 2017, mainly due to a 17.8% increase in the maritime and air freight cost and a 16.2% increase in the customs duties as a result of the overall increase in sales volume

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in 2017. The commission recorded increased by 31.7% due to the increase in revenue generated by customers that were introduced by the third-party sales representatives. The increase in 2017 was also attributable to the increase in staff costs as we enhanced our direct sales force. Our selling and distribution expenses as a percentage of total revenue decreased from 4.2% in 2016 to 4.0% in 2017, mainly due to the economies of scale.

Administrative and Other Operating Expenses

Our administrative and other operating expenses decreased by 0.9% from HK\$287.3 million in 2016 to HK\$284.6 million in 2017, mainly due to a decrease of HK\$23.6 million in amortization of intangible assets from previous acquisitions as some of the customer relationship and incomplete contracts were fully amortized in 2017. The decrease was partially offset by the increase in staff cost of HK\$8.2 million to cope with our business growth and the increase in depreciation of HK\$5.8 million mainly due to the growth of our new plants as well as the increase in listing expenses of HK\$4.3 million in connection with our preparation for listing.

Net Finance Costs

Net finance costs decreased from HK\$80.4 million in 2016 to HK\$76.3 million in 2017, primarily due to less bank loans during the year.

Income Tax

Income tax expense increased from HK\$71.4 million in 2016 to HK\$79.8 million in 2017, primarily because of increase in profit before taxation in 2017.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased from HK\$339.4 million in 2016 to HK\$401.7 million in 2017. Our net profit margin slightly decreased from 13.3% in 2016 to 13.2% in 2017, primarily due to decrease in other revenue due to the completion of relocation of Plant 3 in 2016.

SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment mainly consisted of land, properties held for own use, machinery, furniture, fixtures and equipment, motor vehicles and construction in progress. Our property, plant and equipment amounted to HK\$2,298.6 million, HK\$2,638.9 million and HK\$2,761.6 million as of December 31, 2016, 2017 and 2018, respectively. Increase in property, plant and equipment in 2017 was mainly attributable to additions in machinery and increase in exchange alignment due to appreciation of Renminbi and Euro. Increase in property, plant and equipment in 2018 was mainly attributable to additions in machinery.

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Intangible Assets

During the Track Record Period, our intangible assets amounted to HK\$109.1 million, HK\$103.9 million and HK\$85.5 million as of December 31, 2016, 2017 and 2018, respectively, which arose from our acquisitions of Shenhai Group in June 2014, Cengiz Makina in August 2014 and Impross Impeller in August 2017. The change in intangible assets amounts during the Track Record Period was due to the business combination of Impross Impeller, amortization of intangible assets and changes in Renminbi and Euro exchange rates when translating from the functional currency into presentation currency.

Shenhai Group owned and operated Plant 8 in the PRC and is engaged in plating and surface treatment. Members of the Shenhai Group have registered patents relating to processes and technologies for plating, anodizing and other surface treatment. These patents were valid for between 8 to 10 years when Shenhai Group was acquired and therefore the Group estimated the useful life of the patents to be 8 to 10 years. Shenhai Group had a diversified customer base and based on the historical turnover of its customers, the Group determined the length of the customer relationship for the purpose of estimating the useful life of the customer relationship to be 3 years.

Cengiz Makina owned and operated CMTR-1 in Turkey and is engaged in precision machining. Examples of its major products include high-pressure connectors and gasoline injector housings. It was first established in January 1995 and therefore has a long history together with longstanding customer relationships with its key customers, including Bosch, which has been a customer of Cengiz Makina since its inception. As such, the Group determined the length of the customer relationship for the purpose of estimating the useful life of the customer relationship to be 10 years. In addition, upon the acquisition, certain incomplete contracts were identified and measured as fair value and straightly amortized over their respective remaining contract terms.

Impross Impeller was set up as a joint venture between Impro Yixing, our subsidiary (as to 51.0%), and Ross Casting (as to 49.0%) in February 2011. Our Plant 9 is operated by Impross Impeller which is engaged in aluminum vacuum casting and its key product is compressor wheels. In August 2017, we subscribed for increased registered capital of Impross Impeller raising our interest to 67% such that Impross Impeller became our non-wholly-owned subsidiary. Pursuant to a technology license agreement with Ross Casting, Impross Impeller has the right to use the technical know-how for the manufacture of compressor wheels in China until year 2030. Based on our estimation of the economic benefits to be derived from the product to be produced relying on the technical know-how, the Group determined the useful life of this technical know-how to be 10 years.

In each of the acquisitions, we have engaged external appraiser to assist the Group to determine the fair value and the estimated useful life of the intangible assets at the date of the relevant acquisition. Furthermore, each of Shenhai Group, Cengiz Makina and Impross

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Impeller had net profits for 2016, 2017 and 2018. The Group reviewed the internal and external source of information at the end of each reporting year and no external or internal impairment indicator was identified at the end of each reporting year. Therefore, no impairment to intangible assets is necessary for the Track Record Period.

Goodwill

During the Track Record Period, we recorded significant amount of goodwill of HK\$571.3 million, HK\$626.0 million and HK\$457.3 million as of December 31, 2016, 2017 and 2018, respectively, which was in connection with the acquisitions of Shenhai Group and Cengiz Makina. The change in goodwill amount during the Track Record Period was due to changes in Renminbi and Euro exchange rates when translation from the functional currency into presentation currency and impairment loss for Shenhai Group as at December 31, 2018.

We perform annual impairment test on goodwill at the end of the relevant reporting year. Except for Shenhai Group as at December 31, 2018, the recoverable amount of the cash-generation units of the acquired businesses based on the value-in-use calculations is higher than its carrying amount as of December 31, 2016, 2017 and 2018. As a result of the unexpected downturn of the PRC automotive market starting from the fourth quarter of 2018 and the latest 2019 outlook, we reduced the budgeted EBITDA growth rate of Shenhai Group to reflect the latest market conditions in carrying out our annual impairment test on goodwill. The result indicated that the estimated recoverable amount was less than the carrying amount for Shenhai Group and therefore an impairment loss of goodwill of HK\$141.2 million for Shenhai Group had been recognized in our consolidated statements of profit or loss. For further details of impairment test on goodwill, see Note 14 to Appendix I — “Accountants’ Report” to this prospectus.

Deferred Expenses

Our deferred expenses represent prepaid costs attributable to specific projects developed for certain customers over a period of time. The expense capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Amortization of deferred expenses is charged to profit or loss on a straight-line basis over the estimated useful lives of five years. Both the period and method of amortization are reviewed annually.

Our deferred expenses amounted to HK\$166.1 million, HK\$184.6 million and HK\$166.5 million as of December 31, 2016, 2017 and 2018, respectively.

Deferred Tax Assets

As at December 31, 2016, 2017 and 2018, the Group has recognized deferred tax assets of approximately HK\$23.8 million, HK\$24.2 million and HK\$22.6 million, respectively. The deferred tax assets mainly comprise of tax incentive granted in respect of our investment in Turkey, unrealized profits in inventories and inventory provision. The Group did not, however, recognize deferred tax assets of approximately HK\$18.5 million, HK\$21.8 million and HK\$17.0 million, respectively, in respect of the cumulative losses of the Group’s subsidiaries in

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Germany, the Czech Republic, Luxembourg and Mexico of approximately HK\$59.2 million, HK\$69.7 million and HK\$53.0 million as at December 31, 2016, 2017 and 2018, respectively. A substantial portion of the cumulative losses was attributable to the accumulated losses brought forward of one of our acquired German subsidiaries in 2013 and also the continual slight operating loss in this subsidiary since acquisition. The working capital of our Luxembourg subsidiary is financed by loans and the losses of this subsidiary are largely attributable to the loan interests charged. Our Mexico subsidiary only started operations in 2016 and hence is still ramping up its operations and therefore has been operating at a loss.

Deferred Tax Liabilities

As at December 31, 2016, 2017 and 2018, the Group recognized deferred tax liabilities of approximately HK\$119.5 million, HK\$128.3 million and HK\$97.0 million respectively, comprising mainly of value adjustment arising from business combination, capitalized deferred expenses and capitalized borrowing cost. As at December 31, 2016, 2017 and 2018, the Group has not recognized deferred tax liabilities of approximately HK\$120.1 million, HK\$147.7 million and HK\$177.7 million respectively, in respect of the dividend withholding tax on temporary differences relating to the undistributed profits of the subsidiaries of the Group amounted to approximately HK\$1,744.5 million, HK\$2,118.2 million and HK\$2,510.3 million, respectively. During the Track Record Period, the Company declared a dividend in the amount of HK\$118.0 million in respect of the financial year ended December 31, 2016, a dividend in the amount of HK\$100.5 million in respect of the financial year ended December 31, 2017 and a dividend in the amount of HK\$102.4 million in respect of the financial year ended December 31, 2018. All such dividends were contributed by the operation profits of the Company's Hong Kong subsidiaries, which together have aggregate net profits after taxation of an amount exceeding the total amount of dividends declared in respect of the Track Record Period. The Hong Kong subsidiaries are responsible for the formulation of our Group's strategies, marketing, business development, customer relationship management and export sales of a majority of our finished goods manufactured by our manufacturing entities in the PRC, the selling of finished goods to our other offshore subsidiaries for on-sales in their respective regions, as well as the provision of internal financing to other members of the Group.

As stated under “— Dividends and Dividend Policy”, we intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 25% of our distributable net profit attributable to our equity shareholders in the future, subject to operation needs, working capital requirements and future business expansion plans, among other things. Given the functions of the HK subsidiaries within our Group and therefore their level of profitability, our Directors believe that the future dividends will be contributed by the operation profits of the Hong Kong subsidiaries and the earnings of the Company's other subsidiaries will be retained at subsidiary level for their expansion and working capital needs going forward. Furthermore, as of December 31, 2018, the Company has distributable reserves of HK\$576.7 million. As such, no deferred tax liabilities arisen from undistributed profits was recognized as at December 31, 2016, 2017 and 2018.

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Net Current Assets

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated:

| | As of December 31, | | | As of |
|---|------------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 | April 30, 2019 |
| | (in thousands of HK\$) | | | |
| | <i>(unaudited)</i> | | | |
| Current assets | | | | |
| Inventories | 514,643 | 626,534 | 738,430 | 793,214 |
| Trade and bills receivables | 549,407 | 756,163 | 919,458 | 859,864 |
| Prepayments, deposits and other receivables | 88,698 | 75,489 | 101,779 | 128,488 |
| Taxation recoverable | 3,152 | 4,204 | 5,239 | — |
| Pledged deposits | 9,122 | 3,039 | 2,195 | 2,973 |
| Cash and cash equivalents | 182,250 | 242,322 | 235,543 | 277,228 |
| | <u>1,347,272</u> | <u>1,707,751</u> | <u>2,002,644</u> | <u>2,061,767</u> |
| Current liabilities | | | | |
| Bank loans | 787,622 | 1,000,713 | 1,095,777 | 1,120,024 |
| Obligations under finance leases ⁽¹⁾ | 34,874 | 26,824 | 59,444 | — |
| Lease liabilities ⁽¹⁾ | — | — | — | 68,273 |
| Trade payables | 204,792 | 306,863 | 388,193 | 334,125 |
| Other payables and accruals | 244,490 | 313,867 | 309,960 | 307,935 |
| Taxation payable | 28,035 | 31,311 | 38,328 | 46,458 |
| | <u>1,299,813</u> | <u>1,679,578</u> | <u>1,891,702</u> | <u>1,876,815</u> |
| Net current assets | <u>47,459</u> | <u>28,173</u> | <u>110,942</u> | <u>184,952</u> |

Note:

- (1) According to IFRS 16 which replaces IAS 17 *Leases* for financial period commencing from January 1, 2019, a lessee is required to recognize a lease liability for making lease payments and an asset representing the right to use the underlying asset during the lease term. Accordingly, as at April 30, 2019, our Group recognized current portion of lease liabilities of HK\$68.3 million and obligations under finance leases was no longer recorded.

Our net current assets represent the difference between our total current assets and total current liabilities.

Our net current assets as of December 31, 2017 decreased to HK\$28.2 million from HK\$47.5 million as of December 31, 2016, mainly due to the increase in the proportion of short-term loans.

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The net current assets increased from HK\$28.2 million as of December 31, 2017 to HK\$110.9 million as of December 31, 2018, primarily due to the increase in trade and bills receivables of HK\$163.3 million attributable to increased sales during the year and partially offset by increase in short-term bank loans of HK\$95.1 million as the Group increased short-term bank loans proportion to lower financing costs.

Inventories

The following table sets forth the principal components of our inventories as of the dates indicated:

| | As of December 31, | | |
|--------------------------------|------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Inventories | | | |
| Raw materials | 136,109 | 179,766 | 196,885 |
| Work in progress..... | 198,196 | 229,669 | 296,032 |
| Finished goods | <u>215,926</u> | <u>264,724</u> | <u>293,820</u> |
| | 550,231 | 674,159 | 786,737 |
| Write-down of inventories..... | <u>(35,588)</u> | <u>(47,625)</u> | <u>(48,307)</u> |
| | <u>514,643</u> | <u>626,534</u> | <u>738,430</u> |

We recorded an increase in inventories from HK\$514.6 million as of December 31, 2016 to HK\$626.5 million as of December 31, 2017. In anticipation of the increasing demand as shown by the continuous increase in sales, we increased our procurement and production in 2017, as a result, the raw materials, work in progress and finished goods increased as of December 31, 2017. Inventories further increased to HK\$738.4 million as of December 31, 2018 as a result of increased sales during the year.

As of April 30, 2019, HK\$690.0 million, or 87.7%, of our inventories had been used or consumed subsequent to December 31, 2018.

The following table sets forth our inventory turnover days for the years indicated:

| | For the year ended December 31, | | |
|--|---------------------------------|------|------|
| | 2016 | 2017 | 2018 |
| Inventory turnover days ⁽¹⁾ | 115 | 108 | 105 |

Note:

(1) The inventory turnover days are derived by dividing the average of the beginning and ending inventory (before any write-down of inventories) by cost of sales for that year and multiplied by 365 days for 2016, 2017 and 2018.

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Our inventory turnover days decreased from 115 days in 2016 to 108 days in 2017, mainly a result of our enhanced inventory control policies to effectively reduce our stock and raw material purchases. Our inventory turnover days decreased to 105 days in 2018 because of the strong growth in sales during the year that exceeded our production output.

Trade and Bills Receivables

The following table sets forth our trade and bills receivables as of the dates indicated:

| | As of December 31, | | |
|------------------------------------|------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Trade and bills receivables | | | |
| Trade receivables | 543,501 | 712,022 | 854,844 |
| Bills receivables | <u>24,538</u> | <u>61,030</u> | <u>87,162</u> |
| | 568,039 | 773,052 | 942,006 |
| Less: loss allowance | <u>(18,632)</u> | <u>(16,889)</u> | <u>(22,548)</u> |
| | <u>549,407</u> | <u>756,163</u> | <u>919,458</u> |

Our trade and bills receivable balance increased from HK\$549.4 million as of December 31, 2016 to HK\$756.2 million as of December 31, 2017. It further increased to HK\$919.5 million as of December 31, 2018. The increase was mainly attributable to the strong sales to customers around the globe.

We normally grant a credit period of 15 days to 120 days to our customers. Our finance department at subsidiary level shall closely review the aging analysis of our trade and bills receivables on a semi-monthly basis and report to our Chief Financial Officer at headquarters. Our customer service staff are responsible for monitoring the collectability of such receivables of their respective customer accounts and shall actively follow up with the relevant customers in case of any delay in payment.

Generally, we make provision for doubtful debts for any trade and other receivables where there is objective evidence of impairment. See “— Critical Accounting Policies and Estimates — Impairment of Trade and Other Receivables.” We had loss allowance of HK\$18.6 million, HK\$16.9 million and HK\$22.5 million as of December 31, 2016, 2017 and 2018, respectively.

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The following table sets forth an aging analysis of our trade and bills receivables, based on the relevant invoice date, as of the dates indicated:

| | As of December 31, | | |
|---|------------------------|---------|---------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Trade and bills receivables | | | |
| Within one month | 301,826 | 400,482 | 460,082 |
| One to three months | 217,059 | 299,098 | 386,943 |
| Over three months but within twelve months. | 30,522 | 55,839 | 72,433 |
| Over twelve months | — | 744 | — |
| | 549,407 | 756,163 | 919,458 |

As of April 30, 2019, HK\$838.9 million, or 89.1%, of our total trade and bills receivables as of December 31, 2018 had been subsequently settled.

The following table sets forth our trade and bills receivable turnover days for the years indicated:

| | For the year ended December 31, | | |
|---|---------------------------------|------|------|
| | 2016 | 2017 | 2018 |
| Trade and bills receivable turnover days ⁽¹⁾ ... | 78 | 80 | 83 |

Note:

- (1) The trade and bills receivable turnover days are derived by dividing the average of the beginning and ending trade and bills receivable balance (before any allowance for doubtful debts) by revenue for that year and multiplied by 365 days for 2016, 2017 and 2018.

Our trade and bills receivable turnover days increased from 78 days in 2016 to 80 days in 2017, and further increased to 83 days in 2018 primarily due to our increased sales to certain customers to whom we usually granted a relatively longer credit term.

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Prepayments, Deposits and Other Receivables

The following table sets forth details of prepayments, deposits and other receivables as of the dates indicated:

| | As of December 31, | | |
|---|------------------------|----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Prepayments, deposits and other receivables | | | |
| Prepayments..... | 43,284 | 32,378 | 36,312 |
| Value added tax recoverable | 17,783 | 25,877 | 57,735 |
| Other receivables and deposits | <u>27,631</u> | <u>26,804</u> | <u>25,992</u> |
| | 88,698 | 85,059 | 120,039 |
| Less: loss allowance on non-trade receivables | <u>—</u> | <u>(9,570)</u> | <u>(18,260)</u> |
| | <u>88,698</u> | <u>75,489</u> | <u>101,779</u> |

Our prepayments, deposits and other receivables primarily consist of prepayments, value-added tax and other receivables and deposits. Prepayments are mainly made for purchases of raw materials. Value-added tax recoverable represents the value-added tax deductions from our raw material procurement, which is eligible for offsetting against future value-added tax for domestic and export sales.

As of December 31, 2017, our prepayments, deposits and other receivables decreased by 14.9% to HK\$75.5 million from HK\$88.7 million as of December 31, 2016, mainly due to (i) the loss allowance on non-trade receivables of HK\$9.6 million in 2017 in connection with the arbitration with certain former shareholders of Shenhai Group, see “Business — Legal Proceedings” for more details; and (ii) the decrease in prepayments in relation to professional charges and logistics service, offset by the increase in value added tax recoverable of HK\$8.1 million due to the increase in purchases of machineries from overseas suppliers.

Our prepayments, deposits and other receivables increased to HK\$101.8 million as of December 31, 2018, mainly due to increase in value added tax recoverable of HK\$31.9 million due to the increase in purchase of raw materials by our plants offset by the additional loss allowance on non-trade receivables of HK\$9.1 million in 2018 in connection with the arbitration with certain former shareholders of Shenhai Group.

Trade Payables

Our trade payables primarily consist of balances payable to raw material suppliers and production subcontractors. As of December 31, 2016, 2017 and 2018, our trade payables

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amounted to HK\$204.8 million, HK\$306.9 million and HK\$388.2 million, respectively. The increase in our trade payables from 2016 to 2017 and further increase in 2018, was mainly because we increased our procurement of raw materials at the year end of 2017 and 2018 in preparation for the anticipated continuing growth of our sales in the upcoming years.

The payment arrangements with our suppliers range from cash payment upon delivery to a credit period generally from 15 days to 90 days. Our internal audit team shall monitor the due payments through our centralized ERP system and shall verify account information, payees, amounts and other details before processing any payment. Our internal audit team shall also review the aging analysis of our trade payables on a monthly basis and identify past due payments and urge the relevant departments to follow up.

The following table sets forth an aging analysis of trade payables, based on the relevant invoice date, as of the dates indicated:

| | As of December 31, | | |
|---|------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Trade payables | | | |
| Due within one month | 145,791 | 207,852 | 275,294 |
| Due over one month to three months..... | 38,926 | 83,173 | 101,193 |
| Due over three months | <u>20,075</u> | <u>15,838</u> | <u>11,706</u> |
| | <u>204,792</u> | <u>306,863</u> | <u>388,193</u> |

The increase in trade payables due within one month from December 31, 2016 to December 31, 2018 was primarily because we increased our procurement in anticipation of increasing sales in the upcoming year.

As of April 30, 2019, HK\$344.6 million, or 88.8%, of our total trade payables as of December 31, 2018 had been settled.

The following table sets forth our trade payable turnover days for the years indicated:

| | For the year ended December 31, | | |
|--|---------------------------------|------|------|
| | 2016 | 2017 | 2018 |
| Trade payable turnover days ⁽¹⁾ | 40 | 45 | 50 |

Note:

(1) The trade payable turnover days are derived by dividing the average of the beginning and ending trade payable balance by cost of sales for that year and multiplied by 365 days for 2016, 2017 and 2018.

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Our trade payable turnover days increased from 40 days in 2016 to 45 days in 2017 and further increased to 50 days in 2018, mainly because we adjusted the payment schedules with our suppliers in response to the increase in our trade and bills receivable turnover days as of December 31, 2018.

Other Payables and Accruals

The following table sets forth details of other payables and accruals as of the dates indicated:

| | As of December 31, | | |
|---|------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Other payables and accruals | | | |
| Deferred consideration payable | 68,617 | 92,570 | 62,460 |
| Salaries, wages, bonus and benefits payable..... | 61,963 | 77,588 | 82,192 |
| Payables for purchase of property, plant and equipment..... | 24,137 | 37,224 | 36,723 |
| Contract liabilities | 11,074 | 9,178 | 11,371 |
| Other tax payable | 10,677 | 13,680 | 14,323 |
| Accruals | 35,006 | 38,623 | 54,131 |
| Others | 33,016 | 45,004 | 48,760 |
| | <u>244,490</u> | <u>313,867</u> | <u>309,960</u> |

Our other payables and accruals primarily consist of deferred consideration payable, salaries, wages, bonus and benefits payable to our employees, payables for purchase of property, plant and equipment, contract liabilities, other tax payables and accruals. Deferred consideration payable is related to the acquisition consideration of Shenhai Group in 2014. Contract liabilities represent advances from certain customers to whom we did not establish credit assessment therefore did not grant any credit term. Salaries, wages, bonus and benefits mainly related to salaries payable to China plants staff. Payables for purchase of property, plant and equipment were mainly in connection with the construction of our facilities and purchases of production machineries. Other tax payable primarily consisted of property tax, stamp duty and land use tax payables, and others mainly included payables for utilities and other operating overheads.

The increase in other payables and accruals from HK\$244.5 million as of December 31, 2016 to HK\$313.9 million as of December 31, 2017 was primarily due to (i) increase in deferred consideration payable of HK\$24.0 million in connection with the arbitration with certain former shareholders of Shenhai Group, see “Business — Legal Proceedings” for more details; (ii) increase in salaries, wages, bonus and benefits payable of HK\$15.6 million as we employed more staff to cope with increasing demand from customers; (iii) increase in payables for purchase of property, plant and equipment of HK\$13.1 million.

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The decrease in other payables and accruals from HK\$313.9 million as of December 31, 2017 to HK\$310.0 million as of December 31, 2018 was primarily due to the decrease in deferred consideration payable of HK\$30.1 million as we settled some deferred consideration of the Shenhai Group acquisition, which was partially offset by the increase in accruals of HK\$15.5 million mainly due to increased freight charges.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our liquidity requirements primarily relate to working capital needs, expansion and upgrade of our production facilities, business acquisitions, repayment of bank loans and payment of dividends. Our principal sources of liquidity are our operations, bank loans and other financing activities.

As of April 30, 2019, we had short-term borrowings of HK\$1,188.3 million, long-term borrowings of HK\$875.0 million, cash and cash equivalents of HK\$277.2 million and pledged deposits of HK\$3.0 million, resulting in net borrowings (calculated as total borrowings less cash and cash equivalents and pledged deposits) of HK\$1,783.1 million. As of the same date, we had undrawn bank credit lines of HK\$1,394.6 million.

For illustration purpose, our average monthly operating expenses, being our total revenue for the year ended December 31, 2018 deducting net profit after tax divided by 12, amounted to approximately HK\$278.1 million. On this basis, our cash and cash equivalents of HK\$235.5 million as of December 31, 2018 could support our operating expenses requirements for a period within one month.

The following table sets forth our cash flows for the years indicated:

| | For the year ended December 31, | | |
|---|---------------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Cash flow | | | |
| Net cash generated from operating activities | 633,473 | 751,946 | 777,585 |
| Net cash used in investing activities..... | (386,627) | (398,295) | (588,472) |
| Net cash used in financing activities..... | (295,990) | (300,286) | (187,340) |
| Net (decrease)/increase in cash and cash equivalents | (49,144) | 53,365 | 1,773 |
| Cash and cash equivalents at the beginning of the year..... | 239,417 | 182,250 | 242,322 |
| Effect of foreign exchange rate changes..... | (8,023) | 6,707 | (8,552) |
| Cash and cash equivalents at the end of the year | <u>182,250</u> | <u>242,322</u> | <u>235,543</u> |

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Net Cash Generated from Operating Activities

Our net cash generated from operating activities reflects profits for the year adjusted for non-cash items, such as depreciation and amortization, and impairment loss of goodwill and the effects of changes in working capital, such as increases or decreases in inventories, trade and other receivables and trade and other payables.

In 2018, net cash generated from operating activities was HK\$777.6 million, which was primarily attributable to profit before taxation of HK\$487.4 million, adjusted by reconciliation of certain non-cash items such as depreciation and amortization in the aggregate amount of HK\$378.2 million, and net finance costs of HK\$87.1 million, mainly representing the interest expenses on our bank loans and obligations under finance leases and impairment loss of goodwill of HK\$141.2 million in respect of Shenhai Group. Additional factors that attributed to our net cash generated from operating activities included (i) an increase in trade payables of HK\$97.7 million as a result of our increased procurements; (ii) an increase in other payables and accruals of HK\$32.2 million mainly due to increase in accrual for freight charges; partially offset by (i) an increase in trade and bills receivables of HK\$201.4 million attributable to the strong sales to customers around the globe; (ii) an increase in inventories of HK\$133.7 million mainly in connection with the procurement and production made by the end of 2018 in anticipation of the continuous increasing sales; (iii) an increase in prepayments, deposits and other receivables of HK\$40.0 million as a result of increased purchases to cope with higher production; and (iv) tax paid in the amount of HK\$93.0 million.

In 2017, net cash generated from operating activities was HK\$751.9 million, which was primarily attributable to profit before taxation of HK\$481.5 million, adjusted by reconciliation of certain non-cash items such as depreciation and amortization in the aggregate amount of HK\$361.8 million, and net finance costs of HK\$76.3 million, mainly representing the interest expenses on our bank loans and obligations under finance leases. Additional factors that attributed to our net cash generated from operating activities included (i) an increase in trade payables of HK\$72.6 million as a result of our increased procurements; and (ii) an increase in other payables and accruals of HK\$29.4 million due to increase in deferred contingent consideration, salaries, wages, bonus and benefits payable and other payables; partially offset by (i) an increase in trade and bills receivables of HK\$145.9 million which was mainly attributable to the strong sales to customers in Europe and the United States in 2017; (ii) an increase in inventories of HK\$71.7 million mainly in connection with the procurement and production made by the end of 2017 in anticipation of the continuous increasing sales; and (iii) tax paid in the amount of HK\$85.3 million.

In 2016, net cash generated from operating activities was HK\$633.5 million, which was primarily attributable to profit before taxation of HK\$410.8 million, adjusted by reconciliation of certain non-cash items such as depreciation and amortization in the aggregate amount of HK\$356.7 million, and net finance costs of HK\$80.4 million, mainly representing the interest expenses on our bank loans and obligations under finance leases. Additional factors that attributed to our net cash generated from operating activities included (i) a decrease in inventories of HK\$18.5 million primarily as a result of our increased sales in 2016, (ii) increase in trade payables of HK\$22.0 million due to increased procurement, partially offset by (i) an

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increase in trade and bills receivables of HK\$65.4 million which was mainly attributable to the strong sales to customers in Europe and the United States before year end; (ii) decrease in deferred income due to the completion of relocation of Plant 3 in 2016, (iii) a decrease in other payables and accruals of HK\$51.6 million mainly in connection with the decrease in accruals for listing expenses due to cessation of prior proposed listing in early 2016, and (iv) tax paid in the amount of HK\$58.8 million.

Net Cash Used in Investing Activities

Our net cash used in investing activities mainly reflects our capital expenditures, such as the construction of production facilities, the purchases and upgrades of machinery and equipment, payment for deferred expenses and business acquisitions.

In 2018, net cash used in investing activities was HK\$588.5 million, principally consisted of (i) payments for acquisition of property, plant and equipment of HK\$490.8 million, mainly in connection with the purchases of machineries for upgrading our production plants and the construction of our existing production plants; and (ii) payments for deferred expenses of HK\$76.1 million, mainly in connection with our continuous investments in our specific product development projects and capitalization of costs incurred in pre-production process.

In 2017, net cash used in investing activities was HK\$398.3 million, principally consisted of (i) payments for the acquisition of property, plant and equipment of HK\$330.9 million, mainly in connection with the purchases of machineries for upgrading our production plants and the construction of our existing production plants; and (ii) payments for deferred expenses of HK\$77.7 million, mainly in connection with our continuous investments in our specific product development projects and capitalization of costs incurred in pre-production process.

In 2016, net cash used in investing activities was HK\$386.6 million, principally consisted of (i) payments for the acquisition of property, plant and equipment of HK\$353.4 million, mainly in connection with the purchases of machineries for upgrading our production plants, the construction of our existing production plants, as well as the acquisition of a piece of land parcel in Turkey for our new plant, and (ii) payments for deferred expenses of HK\$80.7 million, mainly in connection with our continuous investments in our specific product development projects and capitalization of costs incurred in pre-production process, which have partially offset by proceeds received from disposal of property, plant and equipment in connection with our plant relocation in the amount of HK\$46.8 million.

Net Cash Used in Financing Activities

In 2018, net cash used in financing activities was HK\$187.3 million, which was mainly attributable to (i) the repayment of bank loans of HK\$1,234.4 million, (ii) dividends paid of HK\$100.5 million, and (iii) interest paid of HK\$84.2 million on our bank loans and obligations under finance leases, partially offset by proceeds from bank loans of HK\$1,266.1 million.

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In 2017, net cash used in financing activities was HK\$300.3 million, which was mainly attributable to (i) the repayment of bank loans of HK\$905.4 million, (ii) dividends paid of HK\$118.0 million, and (iii) interest paid of HK\$83.0 million on our bank loans and obligations under finance leases, partially offset by proceeds from bank loans of HK\$847.5 million.

In 2016, net cash used in financing activities was HK\$296.0 million, which was mainly attributable to (i) the repayment of bank loans of HK\$1,716.0 million, (ii) interest paid of HK\$92.3 million on our bank loans and obligations under finance leases, and (iii) dividends paid of HK\$50.0 million, partially offset by proceeds from bank loans of HK\$1,606.2 million.

Working Capital

As of April 30, 2019, we had bank facilities in a total amount of HK\$3,435.4 million, of which HK\$1,394.6 million was unutilized.

Our working capital needs have been fulfilled by a combination of cash inflow generated from operating activities and bank borrowings. Of the HK\$1,394.6 million unutilized bank facilities as of April 30, 2019, HK\$707.8 million are one-year short-term facilities. While the use of these short-term facilities is not specified or restricted in the relevant facility letters, given the short-term nature and that renewal of the facilities are subject to the lending banks' review and for some facilities, drawdowns are also subject to the lending banks' review, these facilities are primarily designated by the Company for general working capital use. Furthermore, our lending banks are located in various jurisdictions, for example, the bank facilities in China and Turkey which amount to HK\$330.0 million and HK\$216.8 million, respectively, are primarily short-term facilities and will only be utilized to fund local operating expenditures as the transfer of funds obtained from these facilities to our subsidiaries outside of the place of origination of the loans is either subject to foreign exchange control or will attract withholding tax. In addition, the annual interest rates for the unutilized facilities range from 1.8% (Hong Kong dollar loan) to 31.5% (Turkish Lira loan) and the weighted average cost of borrowings applicable to the unutilized facilities is 5.3%. Despite the current relatively favourable interest rate environment, there is no assurance this situation will be prolonged and our financial performance will be negatively affected if there is substantial increase in interests payments.

Our liquidity position indicates that the Listing is not primarily driven by immediate financing needs, but rather our long-term business development and strategic plans. We believe the Listing can enhance our credibility to our customers and other stakeholders such as lending banks. After the Listing, we intend to leverage our position as a listed company to get long-term bank borrowings at favorable terms in order to further improve our capital structure. The Listing also allows our Company to tap into the capital markets as and when we identify suitable acquisition targets. Meanwhile, the ability to provide employee incentives in the form of options over tradeable shares is important to align the interest of employees with our Company and therefore beneficial to our Company's long-term development. The Listing also provides liquidity to our Shareholders which include the Pre-IPO Investors.

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Taking into account the financial resources available to us, including expected net proceeds from this Global Offering, our cash and cash equivalents on hand, unutilized banking facilities, if any, and cash flow generated from operations based on our current production schedules and expansion plans, our Directors believe that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus. We intend to fund them primarily with proceeds from the following sources of cash: cash and cash equivalents available which were HK\$277.2 million as of April 30, 2019; unutilized bank facilities, which amounted to HK\$1,394.6 million as of April 30, 2019; and net proceeds to be received from this Global Offering.

After due consideration and discussions with our management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditures, the Joint Sponsors have no reason to believe that we cannot meet the working capital requirements for at least 12 months following the date of this prospectus.

INDEBTEDNESS

Bank Loans

As of December 31, 2016, 2017 and 2018, we had total outstanding bank loans of HK\$1,818.4 million, HK\$1,796.8 million and HK\$1,794.3 million, respectively. The following table sets forth our bank loans as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|--|------------------------|------------------|------------------|--------------------|
| | 2016 | 2017 | 2018 | 2019 |
| | (in thousands of HK\$) | | | |
| | | | | <i>(unaudited)</i> |
| Bank loans | | | | |
| <i>Within one year or on demand</i> | | | | |
| Short-term bank loans | 325,289 | 466,940 | 394,256 | 454,387 |
| Current portion of long-term bank loans..... | 462,333 | 533,773 | 701,521 | 665,637 |
| | 787,622 | 1,000,713 | 1,095,777 | 1,120,024 |
| <i>Long-term bank loans</i> | | | | |
| More than one year but within two years | 788,823 | 569,346 | 434,579 | 518,901 |
| More than two years but within five years | 241,981 | 226,707 | 263,941 | 278,384 |
| | 1,030,804 | 796,053 | 698,520 | 797,285 |
| | 1,818,426 | 1,796,766 | 1,794,297 | 1,917,309 |

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During the Track Record Period, we leveraged bank loans mainly to fund our working capital, capital expenditures and acquisition of subsidiaries. Our total bank loans decreased from December 31, 2016 to December 31, 2017, primarily because of the positive cash flow generated from our operating activities during 2017 of HK\$751.9 million. Our total bank loans slightly decreased from HK\$1,796.8 million as of December 31, 2017 to HK\$1,794.3 million as of December 31, 2018, primarily due to the higher capital expenditure largely offset the positive cash flow from operating activities in 2018. Our total bank loans increased to HK\$1,917.3 million as of April 30, 2019.

The interest rates of our short-term bank loans ranged from 1.5% to 4.8% as of December 31, 2016, from 1.4% to 5.2% as of December 31, 2017 and from 1.3% to 4.8% as of December 31, 2018, and the interest rates of long-term bank loans ranged from 1.9% to 5.2% as of December 31, 2016, from 1.3% to 5.2% as of December 31, 2017 and from 1.3% to 5.2% as of December 31, 2018.

As of December 31, 2016, 2017 and 2018, we had secured bank loans of HK\$536.1 million, HK\$420.1 million and HK\$581.5 million, respectively. These bank loans were secured by our leasehold land, freehold land, properties held for own use, machinery, construction in progress, inventories and trade receivables in the aggregate carrying value of HK\$950.0 million, HK\$656.3 million and HK\$785.7 million, respectively. The following table sets forth our bank loans in terms of type of security as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2016 | 2017 | 2018 | 2019 |
| | (in thousands of HK\$) | | | |
| | | | | <i>(unaudited)</i> |
| Bank loans | | | | |
| Secured | 536,125 | 420,148 | 581,487 | 616,868 |
| Unsecured | <u>1,282,301</u> | <u>1,376,618</u> | <u>1,212,810</u> | <u>1,300,441</u> |
| | <u>1,818,426</u> | <u>1,796,766</u> | <u>1,794,297</u> | <u>1,917,309</u> |

As of December 31, 2016, our controlling shareholder, Mr. LU, and his spouse, Ms. WANG, provided guarantees in the amount of HK\$1,247.8 million and HK\$558.4 million respectively, for our bank loans. Mr. Lu provided guarantees for our bank loans in the amount of HK\$1,232.4 million and HK\$1,231.6 million as of December 31, 2017 and 2018, respectively. See Note 35(b) to our audited consolidated financial information included in Appendix I — “Accountants’ Report” to this prospectus. Our Directors are of the view that these transactions were carried out in the ordinary and usual course of business and on normal and commercial terms. Guarantees provided by Mr. LU and his spouse will be released prior to the Listing.

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Certain of our outstanding indebtedness carries cross-default provisions as well as various covenants that obligate the Company and some of our subsidiaries to, for example, not make any payment of dividends or other similar distributions which is more than 50.0% of the Group's net profit of each financial year before Listing, obtain the lender's consent before creating new encumbrances on assets that may affect their ability to repay the indebtedness or maintain certain financial ratios, among others. Examples of such financial ratios covenants include consolidated debt to consolidated net worth of less than 3, consolidated debt to EBITDA ratio of less than 4.5 and maintaining consolidated net worth of at least HK\$810.0 million. We have been in compliance with the covenants in our financing agreements and we have not been in default of any cross-default provisions.

As of April 30, 2019, our total banking facilities were HK\$3,435.4 million and the unused portion of our banking facilities available to us were HK\$1,394.6 million. Generally, we will be able to utilize our banking facilities by following customary procedures of the relevant lending banks.

Except as disclosed above, we did not have, as of the Latest Practicable Date, any outstanding mortgages, changes, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. However, given suitable opportunities, we intend to access the capital markets through further equity or equity-linked capital raising or debt-related capital raising.

Our bank loans were mainly denominated in Renminbi, U.S. dollars, Euro and Hong Kong dollars. The following table sets forth our borrowings in terms of currency as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2016 | 2017 | 2018 | 2019 |
| | (in thousands of HK\$) | | | <i>(unaudited)</i> |
| Bank loans | | | | |
| Renminbi | 500,520 | 420,467 | 367,624 | 385,206 |
| U.S. dollars | 1,011,428 | 973,808 | 728,074 | 769,458 |
| Euro | 306,478 | 230,084 | 139,692 | 116,838 |
| Hong Kong dollars | — | 172,407 | 558,907 | 645,807 |
| | <u>1,818,426</u> | <u>1,796,766</u> | <u>1,794,297</u> | <u>1,917,309</u> |

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Obligations under finance leases

Our Group had machineries for production acquired under finance leases. The lease terms ranged from three to five years. The following table sets forth our obligations under finance leases as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|------------------------|----------------------|-----------------------|--------------------|
| | 2016 | 2017 | 2018 | 2019 |
| | (in thousands of HK\$) | | | <i>(unaudited)</i> |
| Obligations under finance leases | | | | |
| Within one year..... | 34,874 | 26,824 | 59,444 | — |
| More than one year..... | <u>55,946</u> | <u>70,271</u> | <u>76,575</u> | — |
| | <u>90,820</u> | <u>97,095</u> | <u>136,019</u> | <u>—</u> |

According to IFRS 16 which replaces IAS 17 *Leases* for financial period commencing from January 1, 2019, a lessee is required to recognize a lease liability for making lease payments and an asset representing the right to use the underlying asset during the lease term. Accordingly, as at April 30, 2019, our Group recognized lease liabilities of HK\$146.0 million, including current portion of HK\$68.3 million, and obligations under finance leases was no longer recorded.

CAPITAL EXPENDITURES

We incur capital expenditures mainly for construction of production facilities, purchases and upgrade of machinery and equipment as well as purchase of land use rights of the sites of our production facilities. In 2016, 2017 and 2018, our capital expenditures were HK\$448.1 million, HK\$365.5 million and HK\$567.7 million, respectively. The following table sets forth the major components of our capital expenditures for the years indicated:

| | For the year ended December 31, | | |
|---|---------------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | (in thousands of HK\$) | | |
| Capital expenditures | | | |
| Additions of property, plant and equipment ("PPE") | 441,866 | 402,141 | 544,313 |
| Change in prepayment of PPE | <u>6,232</u> | <u>(36,686)</u> | <u>23,368</u> |
| | <u>448,098</u> | <u>365,455</u> | <u>567,681</u> |

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During the Track Record Period, our capital expenditures were primarily used for the purchases of new equipment and construction of additional facilities to (i) expand our production capacities in order to improve our capability to meet the demands of various end-markets, (ii) relocate our Plant 3 located in the PRC; and (iii) increase automation to mitigate the impact from increases in labor costs. Please refer to “Business — Production — Our Capital Expenditure and Capacity Expansion Plans” for more details about our production expansion plans with respect to each of the four segments.

Based on our current expansion plans, we currently estimate that our capital expenditures in 2019 and 2020 would be approximately HK\$581.9 million and HK\$543.1 million respectively. We expect to fund our future capital needs by cash generated from our operating activities, bank loans as well as the net proceeds from this Global Offering. See “Future Plans and Use of Proceeds.”

OPERATING LEASES

We leased a number of properties mainly for the use of our warehousing and office spaces. Our lease terms ranged from one to ten years, with an option to renew. The following table sets out our operating lease commitments under non-cancellable operating leases for the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|------------------------|---------------|---------------|--------------------|
| | 2016 | 2017 | 2018 | 2019 |
| | (in thousands of HK\$) | | | |
| | | | | <i>(unaudited)</i> |
| Operating leases commitments | | | | |
| Within one year | 9,846 | 8,330 | 10,060 | — |
| After one year but within five years | 17,631 | 20,042 | 17,881 | — |
| After five years | 7,667 | 5,883 | 2,237 | — |
| | 35,144 | 34,255 | 30,178 | — |

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CAPITAL COMMITMENTS

The following table sets out our capital commitments outstanding but not provided for in our consolidated financial statements as of the dates indicated:

| | As of December 31, | | | As of |
|--------------------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 | April 30, 2019 |
| | (in thousands of HK\$) | | | |
| | | | | <i>(unaudited)</i> |
| Capital commitments | | | | |
| Contracted for | <u>161,905</u> | <u>197,038</u> | <u>176,127</u> | <u>116,039</u> |
| <i>Represented by</i> | | | | |
| Construction of plants | 77,326 | 83,391 | 47,426 | 32,056 |
| Acquisition of machinery | <u>84,579</u> | <u>113,647</u> | <u>128,701</u> | <u>83,983</u> |
| | <u>161,905</u> | <u>197,038</u> | <u>176,127</u> | <u>116,039</u> |

Our capital commitments during the Track Record Period were primarily relating to the construction of our production plants, as well as the purchase of freehold land, production machinery and equipment.

CONTINGENT LIABILITIES

We had no material contingent liabilities as of December 31, 2016 and 2017 and 2018. Our Directors confirm that, there had been no material change in our contingent liabilities from December 31, 2018 up to the Latest Practicable Date.

SUMMARY OF FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the years indicated:

| | As of or for the | | |
|--|-------------------------|------|------|
| | year ended December 31, | | |
| | 2016 | 2017 | 2018 |
| Key financial ratios | | | |
| Net gearing ratio (%) ⁽¹⁾ | 86.8 | 65.2 | 63.1 |
| Interest coverage (times) ⁽²⁾ | 5.5 | 6.8 | 6.3 |
| Leverage ratio (times) ⁽³⁾ | 3.5 | 3.0 | 2.9 |
| Return on assets (%) ⁽⁴⁾ | 7.3 | 8.1 | 7.5 |
| Return on equity (%) ⁽⁵⁾ | 17.7 | 17.9 | 15.8 |
| Current ratio (times) ⁽⁶⁾ | 1.0 | 1.0 | 1.1 |

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Notes:

- (1) Our net gearing ratio equals total interest-bearing bank loans and obligations under finance leases less cash and cash equivalents and pledged deposits divided by total equity as of the end of the financial year.
- (2) Our interest coverage is profit from operations divided by interest expenses on total interest-bearing bank loans.
- (3) Our leverage ratio equals total interest-bearing bank loans and obligations under finance leases less cash and cash equivalents and pledged deposits divided by profit from operations for each financial year.
- (4) Our return on assets equals profit for each financial year divided by the average of the beginning and ending total assets of the same year.
- (5) Our return on equity ratio equals profit for the year attributable to equity shareholders of the group divided by the average of the beginning and ending total equity attributable to equity shareholders of the group of the same year.
- (6) Our current ratio equals current assets divided by current liabilities as of the end of each financial year.

Net Gearing Ratio

Our net gearing ratio decreased from 86.8% as of December 31, 2016 to 65.2% as of December 31, 2017 primarily due to a decrease in our bank loans as we generated operating cash inflow and repaid our bank loans during the year and the ratio further decreased to 63.1% as of December 31, 2018, primarily due to increase in equity base.

Interest Coverage

Our interest coverage increased from 5.5 times in 2016 to 6.8 times in 2017 mainly due to the decrease in interest expenses resulted from reduced bank loans and an increase in profit from operations driven from strong growth in revenue. Interest coverage decreased from 6.8 times in 2017 to 6.3 times in 2018 is mainly due to the impact of the impairment loss of goodwill.

Leverage Ratio

Leverage ratio decreased from 3.5 times in 2016 to 3.0 times in 2017 and further decrease to 2.9 times to 2018, mainly due to increase in profit. The decreasing trend of our leverage ratio during the Track Record Period was in line with the changes in the net gearing ratio.

Return on Assets

Our return on assets increased from 7.3% in 2016 to 8.1% in 2017 primarily due to an increase in our profit after tax contributed by investment casting, precision machining and sand casting segments. Return on assets decreased to 7.5% in 2018, mainly due to impairment loss of goodwill.

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Return on Equity

Return on equity increased from 17.7% in 2016 to 17.9% in 2017, primarily due to an increase in our profit after tax as a result of strong growth in revenue. Return on equity decreased to 15.8% in 2018, primarily due to impairment loss of goodwill.

Current Ratio

Current ratio remained at 1.0 times as of December 31, 2016 and December 31, 2017. Current ratio increased to 1.1 times as of December 31, 2018.

LISTING EXPENSES

We expect to incur total listing expenses of approximately HK\$113.1 million (including underwriting commissions and incentive fees (assuming full payment) of approximately HK\$38.8 million, assuming an Offer Price of HK\$3.05 per Offer Share, being the mid-point of the indicative range of the Offer Price of HK\$2.80 to HK\$3.30 per Offer Share) in connection with this Global Offering.

In 2017 and 2018, we incurred listing expenses of approximately HK\$4.3 million and HK\$48.0 million, respectively, which had been recognized as administrative and other operating expenses for the year ended December 31, 2017 and 2018, respectively. In addition, HK\$18.8 million of listing expenses incurred in 2019 is expected to be recognized as administrative and other operating expenses for the year ending December 31, 2019, and HK\$42.0 million is expected to be charged to share premium upon Listing. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending on December 31, 2019.

DIVIDENDS AND DIVIDEND POLICY

In 2016 and 2017, we declared and distributed dividends of HK\$50.0 million and HK\$118.0 million, respectively, representing approximately 25% of consolidated net profit attributable to equity shareholders for the years ended December 31, 2015 and 2016. We declared and distributed in March 2018 and March 2019, respectively, dividend of HK\$100.5 million and HK\$102.4 million, which is based on approximately 25% of our consolidated net profit attributable to our equity shareholders in 2017 and 2018, respectively. As of the Latest Practicable Date, we had paid out all the dividends declared during the Track Record Period and in March 2019.

Following the Listing, our Board may determine to pay dividends at its own discretion in the future after considering our profits, cash flows, business opportunities and capital requirements, including the capital injection to our subsidiaries for their future expansion, general financial condition, regulatory limitations on our PRC and other subsidiaries' ability to distribute dividends to us and any other factors that our Board considers relevant.

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A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to the shareholders' approval.

We currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 25% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

DISTRIBUTABLE RESERVES

As of December 31, 2018, the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$576.7 million.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

As of December 31, 2016, our controlling shareholder, Mr. LU, and his spouse, Ms. WANG, provided guarantees in the amount of HK\$1,247.8 million and HK\$558.4 million, respectively, for our bank loans. Mr. Lu provided guarantees for our bank loans in the amount of HK\$1,232.4 million and HK\$1,231.6 million as of December 31, 2017 and 2018, respectively. Such guarantees provided by Mr. LU and Ms. WANG will be released prior to the Listing.

In addition, during the Track Record Period, Impress Impeller, our joint venture which subsequently became our subsidiary in August 2017, entered into a lease agreement with us, under which Impress Impeller pays a rental to Impro Yixing for leasing 4,414 sq.m. of its plant. Rental income generated from Impress Impeller amounted to HK\$1.6 million and HK\$1.2 million, respectively, in 2016 and 2017. In addition, we paid utility expenses on behalf of Impress Impeller with an amount of HK\$1.8 million and HK\$1.9 million, in 2016 and 2017, respectively.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

We are exposed to various types of financial risks in the ordinary course of our business, including foreign currency risk, interest rate risk, credit risk and liquidity risk.

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Foreign Currency Risk

Our revenue is mainly denominated in U.S. dollars, Euro, and Renminbi, while most of our cost of sales is denominated in Renminbi, Turkish Lira and Euro. As a result, an appreciation of the Renminbi, Turkish Lira and Euro may increase our cost of sales, while a depreciation of the U.S. dollars, Euro and Renminbi may decrease our revenue, in each case in Hong Kong dollar terms, and our profit margin may be affected. We attempt to mitigate such impact by making arrangements with certain customers to adjust prices based on exchange rate movements as part of the long-term agreements with some of our customers. See “Business — Customers — Pricing Policy” for details.

In addition, since our various subsidiaries have significant amounts of monetary assets and liabilities denominated in currencies other than their own functional currencies as of balance sheet dates, we record exchange gains or losses with the fluctuation of currency exchange rates. In 2016, 2017 and 2018, we recorded a gain of HK\$13.7 million, a loss of HK\$36.1 million and a loss of HK\$17.9 million, respectively, due to foreign exchange rate changes.

The following table sets forth the profile of our exposure to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of our various subsidiaries as of December 31, 2018:

| | <u>U.S. Dollar</u> | <u>Euro</u> | <u>Renminbi</u> | <u>Turkish Lira</u> |
|--|------------------------|----------------|------------------|---------------------|
| | (in thousands of HK\$) | | | |
| Net exposure arising from recognized assets and liabilities | | | | |
| Trade and bills receivables | 346,082 | 129,975 | — | 7,211 |
| Prepayments, deposits and other receivables | 14,703 | 1,199 | 94,712 | 40,576 |
| Cash and cash equivalents | 29,895 | 28 | — | 7,364 |
| Trade payables | (32,303) | (21,667) | (430,919) | (9,988) |
| Other payables and accruals | (2,972) | (1,189) | — | (11,034) |
| Bank loans | (582,773) | (113,227) | — | — |
| | <u>(227,368)</u> | <u>(4,881)</u> | <u>(336,207)</u> | <u>34,129</u> |

For the years ended December 31, 2016 and 2017 and 2018, if there was an appreciation of the U.S. dollar by 5.0%, with all other variables held constant, our profit after tax and retained profits would have decreased by HK\$30.1 million, HK\$27.9 million and HK\$9.6 million, respectively; if there was an appreciation of the Euro by 5.0%, with all other variables held constant, our profit after tax and retained profits would have decreased by HK\$6.2 million, HK\$4.8 million and HK\$0.2 million, respectively; and if there was an appreciation of the Renminbi by 5.0%, with all other variables held constant, our profit after tax and retained profits would have decreased by HK\$1.0 million, HK\$5.4 million and HK\$14.2 million,

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respectively. If there was an appreciation of the Turkish Lira by 5.0%, with all other variables held constant, our profit after tax and retained profits would have decreased by HK\$0.2 million, HK\$0.1 million and increased by HK\$1.3 million, respectively.

The results of operations of our subsidiaries with functional currency other than Hong Kong dollars are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions. Consolidated statements of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

For the financial years ended December 31, 2016, 2017 and 2018, we recognized exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong dollars of loss of HK\$151.4 million, profit of HK\$249.6 million and loss of HK\$155.4 million, respectively, in other comprehensive income. The translation difference loss in 2016 was mainly due to the depreciation of Euro and Renminbi versus Hong Kong dollars as our functional currencies of subsidiaries in Europe, Turkey and China are denominated in Euro, Euro and Renminbi, respectively. The translation difference profit in 2017 was mainly due to the appreciation of Euro and Renminbi versus Hong Kong dollars. The translation difference loss in 2018 was mainly due to the depreciation of Euro and Renminbi versus Hong Kong dollars.

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

Historical Hedging Arrangements

To mitigate the exposure to foreign currency exchange risk, we monitor the foreign exchange rates and may adjust the currency mix of our loan portfolio from time to time with a view to reducing the impact of exchange rate fluctuations.

To hedge against the risk of appreciation of the Renminbi against the U.S. dollar, during the Track Record Period, we had also entered into certain variable forward contracts with reputable banks to exchange either Renminbi for U.S. dollars at specified exchange rates on specified dates. Under these arrangements, on each settlement date, if the spot exchange rate is below or equal to the strike rate, we would exchange U.S. dollars for Renminbi with the bank as our counterparty at the strike rate and receive a gain, thus mitigating the negative effects of Renminbi's appreciation against U.S. dollars. Conversely, if the spot exchange rate rises above the knock-in rate, we would exchange U.S. dollars for Renminbi at the knock-in rate and realize a loss. If the spot exchange rate is above the strike rate and below or equal to the knock-in rate, there would be no trade.

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There is also a built-in “target redemption” feature. Once our accumulative gains from prior trades reach a pre-determined “target redemption amount” on any determination date for the next scheduled trade, the amount of Renminbi our counterparty is obligated to deliver to us will no longer be calculated based on the forward rate but varied to such an amount that our accumulative gains will reach the target redemption amount, and all remaining un-executed scheduled trades will be cancelled. Such date becomes the termination date of the contract.

Certain Renminbi/US\$ variable forward contracts contain “barrier rates.” If the spot Renminbi/US\$ exchange rate is below or equal to the barrier rate (contemplating a very strong Renminbi at the settlement date) on any determination date, the relevant trade and all remaining un-executed scheduled trades under the contract will be cancelled. Such date becomes the termination date of the contract.

The following is a summary of the key terms and actual termination dates of variable contracts we entered into during the Track Record Period:

| No. | Contract Date | Expiry Date | Term ⁽¹⁾ | Nominal Amount | Target Redemption Amount | Barrier Rate | Strike Rate | Knock-in Rate | Termination Date |
|-----|------------------|--------------|--|-----------------|--------------------------|------------------|---|---|------------------|
| 1 | January 2, 2014 | May 18, 2016 | 24 settlements, approximately once a month | US\$2.0 million | RMB1.4 million | 6 RMB/US\$ | 6.145 RMB/US\$ | 6.215 RMB/US\$ | May 18, 2016 |
| 2 | January 3, 2014 | May 18, 2016 | 24 settlements, approximately once a month | US\$2.0 million | RMB1.4 million | 6 RMB/US\$ | 6.145 RMB/US\$ | 6.215 RMB/US\$ | May 18, 2016 |
| 3 | January 10, 2014 | May 18, 2016 | 24 settlements, approximately once a month | US\$2.0 million | RMB1.4 million | 5.98 RMB/US\$ | 6.14 RMB/US\$ or 6.08 RMB/US\$ | 6.21 RMB/US\$ or 6.15 RMB/US\$ | May 18, 2016 |
| 4 | January 28, 2014 | May 18, 2016 | 24 settlements, approximately once a month | US\$5.0 million | RMB3.5 million | 5.98 RMB/US\$ | 6.14 RMB/US\$ or 6.08 RMB/US\$ | 6.21 RMB/US\$ or 6.15 RMB/US\$ | May 18, 2016 |

Note:

(1) Subject to earlier termination in accordance with the terms of the contract.

Before May 2016, we carried out foreign exchange hedging in accordance with our internal hedging policy. Our finance department, in each quarter end, provided to our CEO and CFO an estimate of the U.S. dollars we would receive. Based on such estimate and its views on the fluctuations of foreign-exchange rates, our finance department decided whether any currency hedging arrangement was necessary. If our finance department decided that a hedging arrangement was necessary and appropriate, it would formulate appropriate hedging plans under the supervision of our CFO. Our CFO and our Board were collectively responsible for reviewing the hedging plans and evaluating and controlling risks associated with the

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hedging plans. A hedging instrument would subject to approval by our Board. In addition, the amount of the hedged foreign currency normally should not exceed the amount of our expected future income denominated in that foreign currency, and the hedging horizons, which are the lengths of time between entering into a hedging contract and the execution date, are generally the same as or similar to the lengths of time during which we expect to receive income in that foreign currency. All of our foreign exchange hedging arrangements expired by May 2016.

Since June 2016, we decided to hedge our foreign exchange risk by adjusting our interest bearing borrowing currencies in a proportion that resembled the respective underlying sales currency proportion. As of December 31, 2016, 2017 and 2018, our U.S. dollar, Renminbi and Euro denominated interest bearing bank loans and obligations under finance leases were 53.0%, 26.2% and 20.8% of total borrowings as of December 31, 2016, 51.4%, 22.2% and 17.3% as of December 31, 2017 and 37.7%, 19.0% and 14.3% as of December 31, 2018, respectively, while our U.S. dollar, Renminbi and Euro denominated sales were 46.9%, 21.4% and 31.7% of total revenue for 2016, 50.9%, 17.8% and 31.3% of total revenue for 2017 and 46.2%, 22.3% and 31.5% for 2018.

During the Track Record Period, we recognized a gain of HK\$8.8 million in connection with the above mentioned hedging arrangements in 2016. We currently do not intend to enter into similar hedging arrangements in the future.

Interest Rate Risk

Our interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and at fixed rates expose us to cash flow interest rate risk and fair-value interest risk, respectively. For this purpose, we define net borrowings as being interest-bearing financial liabilities less interest bearing investments, excluding cash held for short-term working capital purposes. As of December 31, 2018, we had HK\$1,930.3 million in borrowings, of which 72.5% are borrowings with variable rates and 27.5% are borrowings with fixed rates. Our policy is to obtain the most favorable interest rate available in respect of our banking facilities.

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The following table sets forth the interest rate profile of our net borrowings as of December 31, 2016, 2017 and 2018:

| | As of December 31, | | | | | |
|--|-------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | 2016 | | 2017 | | 2018 | |
| | Effective Interest rate | Amount | Effective Interest rate | Amount | Effective Interest rate | Amount |
| | % | (in thousands HK\$) | % | (in thousands HK\$) | % | (in thousands HK\$) |
| Fixed rate borrowings: | | | | | | |
| Bank loan | 4.87% | 509,916 | 4.62% | 453,550 | 4.51% | 394,131 |
| Obligations under finance leases | 4.53% | 90,820 | 3.83% | 97,095 | 4.64% | 136,019 |
| | | 600,736 | | 550,645 | | 530,150 |
| Variable rate borrowings: | | | | | | |
| Bank loans | 2.28% | 1,308,510 | 3.19% | 1,343,216 | 4.18% | 1,400,166 |
| Total borrowings | | <u>1,909,246</u> | | <u>1,893,861</u> | | <u>1,930,316</u> |
| Fixed rate borrowings as a percentage of total net borrowings..... | | <u>31.5%</u> | | <u>29.1%</u> | | <u>27.5%</u> |

As of December 31, 2016 and 2017 and 2018, it is estimated that if the interest rate increases or decreases by 1.0%, with all other variables held constant, our profit after tax and retained profits would have decreased or increased by approximately HK\$10.9 million, HK\$11.0 million and HK\$11.5 million, respectively.

Credit Risk

The following table sets forth the percentage of the outstanding trade receivables from our largest customer and five largest customers, respectively, covering our total outstanding trade receivables, as of the dates indicated:

| | As of December 31, | | |
|---------------------------------------|--------------------|-------|-------|
| | 2016 | 2017 | 2018 |
| From the largest customer | 5.7% | 9.9% | 8.7% |
| From the five largest customers | 33.5% | 35.7% | 39.3% |

Our credit risk is primarily attributable to trade receivables.

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Credit Risk Management

Our credit risk is primarily attributable to trade and other receivables. Our major customers are well-known global enterprises and we believe that they are reliable and of high credit quality.

We generally granted credit terms to our customers ranging from 15 days to 120 days after billing date. We normally do not obtain collateral from our customers. During the Track Record Period, we did not experience any material default in payment by our customers.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past payment history when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The maximum exposure to our credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any loss allowance. We do not provide any guarantees which would expose us to credit risk. We recognized impairment losses on trade and other receivables in the amount of HK\$15.9 million, HK\$10.7 million and HK\$20.7 million in 2016, 2017 and 2018, respectively.

During the Track Record Period, we did not initiate any material legal proceeding against our customers to collect overdue or delinquent accounts, nor did we experience any material delay in repayment by our customers.

Liquidity Risk

Due to the capital-intensive nature of our business, it is critical for us to ensure that we maintain sufficient cash and unused credit facilities to meet our liquidity requirements. Our objective is to regularly monitor our liquidity requirements and the compliance with leading covenants to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from operations and external financing to replenish our working capital, fund capital expenditures

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and meet our debt obligations as they fall due. The following table sets forth the maturity profile of our financial liabilities as of December 31, 2018, based on contractual undiscounted cash flows:

| | Within one year | More than one year but less than two years | More than two years but less than five years | Total |
|--|--------------------|---|---|------------------|
| (in thousands of HK\$) | | | | |
| Financial liabilities | | | | |
| Bank loans | 1,166,946 | 464,158 | 274,216 | 1,905,320 |
| Trade payables | 388,193 | — | — | 388,193 |
| Other payables and accruals | 309,960 | — | — | 309,960 |
| Obligations under finance leases | 60,716 | 60,642 | 21,347 | 142,705 |
| | <u>1,925,815</u> | <u>524,800</u> | <u>295,563</u> | <u>2,746,178</u> |

Limitations of Sensitivity Analysis

While we consider sensitivity analysis provide us with a valid estimation of financial risk exposures, we recognize that there are certain limitations in its use. Our sensitivity analysis is an estimate based on a fixed point in the past. Nearly all of our assets and liabilities are subject to financial risk from fluctuating interest rates and foreign exchange rates. These fluctuations cannot be foreseen and could occur very suddenly. The quantitative risk measures provided by the sensitivity analysis are a snapshot, describing the potential losses to investments under a particular set of assumptions and parameters, which, though reasonably possible, may differ considerably from actual losses experienced in the future.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of this Global Offering on our consolidated net tangible assets as of December 31, 2018 as if it had taken place on December 31, 2018.

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The unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of December 31, 2018 or any future date following this Global Offering. It is prepared based on our audited consolidated net tangible assets as of December 31, 2018, as set out in the Accountants' Report of Our Group in Appendix I, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report of Our Group as set out in Appendix I to this prospectus.

| | Audited consolidated net tangible assets attributable to owners of the Company as of December 31, 2018⁽¹⁾ | Estimated net proceeds from this Global Offering⁽²⁾ | Unaudited pro forma adjusted consolidated net tangible assets⁽³⁾ | Unaudited pro forma adjusted consolidated net tangible assets per Share |
|--|---|---|--|--|
| | (in millions of HK\$) | | | (HK\$) |
| Based on an Offer Price of HK\$2.80 per Share | 2,126.3 | 875.8 | 3,002.1 | 1.64 |
| Based on an Offer Price of HK\$3.30 per Share | 2,126.3 | 1,035.7 | 3,162.0 | 1.72 |

Notes:

- (1) The audited consolidated net tangible assets of our Company attributable to the equity shareholders of our Company as of December 31, 2018 have been calculated based on the audited consolidated total equity attributable to equity shareholders of our Company as of December 31, 2018 of HK\$2,669.2 million less intangible assets and goodwill as of December 31, 2018 of HK\$85.5 million and HK\$457.3 million, respectively, extracted from the Historical Financial Information included in the Accountants' Report of Our Group set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from this Global Offering are based on the indicative offer prices of HK\$2.80 and HK\$3.30 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company (excluding the listing expenses which have been accounted for prior to December 31, 2018) or Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds assumes the full payment of discretionary incentive fee up to 1% of the Offer Price multiplied by the total number of Offer Shares. The pro forma adjusted consolidated net tangible assets and the pro forma consolidated net tangible asset per Share would be increased if we decide not to pay such incentive fee.
- (3) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company to reflect our trading results or other transactions entered into subsequent to December 31, 2018, including but not limited to the dividends declaration on March 29, 2019. Had such dividends been declared on December 31, 2018, our unaudited pro forma adjusted consolidated net tangible assets would have been decreased by approximately HK\$102.4 million, and our unaudited pro forma adjusted consolidated net tangible assets per Share would have been decreased approximately by HK\$0.06.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share is calculated based on 1,833,300,000 shares in issue immediately assuming the Capitalization Issue and the Global Offering have been completed on December 31, 2018 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option.

FINANCIAL INFORMATION

PROPERTY INTERESTS

As of December 31, 2018, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets. Therefore, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings. On this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report.

IMPACTS OF THE U.S. TAX TARIFFS

On June 15, 2018, the U.S. Trade Representative published a list of products imported from China that are or could be subject to additional duty of 25%. The list covers two sets of US tariff lines with a first set of 818 lines, including certain of the Group's products exported to the United States during the Track Record Period. Additional duties have been applied to the first set tariff lines from July 6, 2018 onwards. The list also includes a second set tariff lines which was finalised in August 2018 to include 279 tariff lines and additional duties apply to these tariff lines from August 23, 2018 onwards. For illustrative purposes only, approximately 9.8%, 10.4% and 12.3% of the Group's total sales for the financial years ended December 31, 2016, 2017 and 2018, respectively, were derived from products exported to the United States that are included in the first and second sets of the list. Assuming such additional duties were levied throughout the Track Record Period, the additional amounts of customs tax expenses incurred by the Group would have been HK\$51.5 million, HK\$66.8 million and HK\$94.8 million, respectively, the net profit of the Group would have been HK\$296.8 million, HK\$346.0 million and HK\$331.4 million, respectively, and the net profit margin of the Group would have been 11.7%, 11.3% and 8.8%, respectively, for the financial years ended December 31, 2016, 2017 and 2018. The customs tax expenses amounts were calculated based on the U.S. imported prices and sales volume of the relevant products.

On September 17, 2018, the U.S. Trade Representative finalized and published an additional list of products imported from China with an annual trade value of approximately US\$200 billion that would be subject to additional tariff (the "**New List**"). The rate of such tariff on products included in the New List is 10% effective from September 24, 2018, and would be increased to 25% from January 1, 2019 onwards. It was also reported that the United States was considering to announce tariffs on additional US\$267 billion worth of Chinese products. However, on December 1, 2018, it was announced by the White House that the rate of the tariff on products included in the New List will remain at 10% pending negotiations between the PRC and the United States on structural changes with respect to among other things, technology transfer, intellectual property protection and agriculture, and the previously threatened additional tariffs will not be imposed. After several rounds of trade talks among the governments of China and the United States, on February 24, 2019, President Trump announced that he would extend the original March 1 trade deal truce deadline with respect to the increase of the tariff from 10% to 25% under the third list. The rate of tariff has increased

FINANCIAL INFORMATION

to 25% with effect from May 10, 2019. For illustrative purposes only, approximately 30.4%, 30.7% and 32.0% of the Group's total sales for the financial years ended December 31, 2016, 2017 and 2018, respectively, were derived from products exported to the United States that are subject to the additional tariff. Assuming additional tariff at the rate of 25% were levied throughout the Track Record Period in respect of such products and based on the U.S. imported prices and sales volumes of the relevant products, the additional amounts of tariff incurred by the Group would have been HK\$159.8 million, HK\$197.1 million and HK\$246.9 million, respectively, the net profit of the Group would have been HK\$207.4 million, HK\$237.3 million and HK\$203.0 million, respectively, and the net profit margin of the Group would have been 8.1%, 7.8% and 5.4%, respectively, for the financial years ended December 31, 2016, 2017 and 2018. We will strive to leverage our global footprint and collaborate with our customers to mitigate our adverse exposure to such tariff lines mainly by passing on the additional tariff to our customers. In this regard, we have entered into good faith negotiations with our customers individually and we have been able to pass the additional tariff partially or in full to our customers depending on factors including the price competitiveness of the products we supply to them and the potential of the business volume growth for the customers. For the year ended December 31, 2018, the total amount of additional tariff levied on our products was approximately HK\$31.1 million and approximately HK\$11.8 million of such additional tariff was borne by our Group. In addition, we also believe the adverse impact of the additional tariff would be partially offset by the depreciation of Renminbi since June 2018 as we typically generate our revenue in U.S. dollars or Euro from the export products. See "Risk Factors — Risk Relating to Our Business and Industry — Changes in international trade policies and international barriers to trade may have an adverse effect on our competitiveness and expansion plans."

After due and careful consideration, our Directors confirm that, save as disclosed above, up to the date of this prospectus, there has been no material adverse change in our financial and trading position since December 31, 2018, and there is no event since December 31, 2018 which would materially affect the audited financial information as set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of Chapter 13 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section entitled “Business — Our Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets forth the estimate of the net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

| | Assuming the Over-allotment Option is not exercised | Assuming the Over-allotment Option is exercised in full |
|---|--|--|
| Assuming an Offer Price of HK\$3.05 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)..... | Approximately HK\$903.5 million | Approximately HK\$1,049.8 million |
| Assuming an Offer Price of HK\$3.30 per Offer Share (being the high end of the Offer Price range stated in this prospectus) | Approximately HK\$983.4 million | Approximately HK\$1,141.8 million |
| Assuming an Offer Price of HK\$2.80 per Offer Share (being the low end of the Offer Price range stated in this prospectus)..... | Approximately HK\$823.5 million | Approximately HK\$957.8 million |

We intend to use the net proceeds of the Global Offering for the following purposes (assuming an Offer Price of HK\$3.05 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Global Offering, and the Over-allotment Option is not exercised):

- approximately 40% of our estimated net proceeds, representing approximately HK\$361.3 million, will be used to fund our capital expenditures mainly in connection with our production capacity expansion, among which (i) HK\$109.0 million, HK\$65.7 million, HK\$23.3 million and HK\$17.2 million will be used to expand and upgrade our production capacity for our investment casting, precision machining, sand casting and surface treatment businesses, respectively, and (ii) HK\$146.1 million will be applied for our Mexico operations, as detailed in “Business — Production — Our Capital Expenditure and Capacity Expansion Plans;”

FUTURE PLANS AND USE OF PROCEEDS

- approximately 30% of our estimated net proceeds, representing approximately HK\$271.1 million, will be used to repay our following interest-bearing banks borrowings:

| Number and type of bank loans | Denominating currency | Lending banks | Aggregate principal amount to be repaid | Interest rate per annum | Maturity date |
|-------------------------------------|--------------------------|------------------------------------|--|--|-----------------------------------|
| Four working capital loans | RMB | PRC domestic commercial bank | Approximately RMB130.0 million | Fixed rate at 4.45% to 5.23% | July 2019 to October 2019 |
| Two term loans | US\$ | Overseas commercial banks | Approximately US\$8.1 million | Floating rate at LIBOR plus 2.125% to 2.25% | August 2019 to June 2020 |
| Two term loans | HK\$ | Overseas commercial banks | Approximately HK\$55.7 million | Floating rate at HIBOR plus 2.25% to 2.5% | September 2019 to June 2020 |

We applied all of the above bank loans for our working capital needs;

- approximately 20% of our estimated net proceeds, representing approximately HK\$180.7 million, will be used to selectively pursue potential acquisitions of businesses that complement our business model and are in line with our growth strategy; as of the Latest Practicable Date, we had not identified any acquisition targets. It is envisaged that we will seek acquisition opportunities mainly in investment casting or precision machining companies catering for end-markets with high-growth, such as aerospace and medical, with a focus on potential acquisition targets with a valuation of not less than US\$20 million. In selecting and assessing potential acquisition opportunities, we will consider synergies between the acquired target and the rest of the Group post-acquisition, experience and skills of the management team, operation scale, technological capability, product portfolio, customer base, end-market exposures, valuation and estimated costs, as well as cultural fit; and
- approximately 10% of our estimated net proceeds, representing approximately HK\$90.4 million, will be used as our working capital and for general corporate purposes.

Except for the amount of HK\$271.1 million that we expect to use to repay our interest-bearing bank borrowings, the above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the Offer Price range stated in this prospectus.

In the event that the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds to the above uses in the proportions stated above, except for the amount of HK\$271.1 million that we expect to use to repay our interest-bearing bank loans.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into demand deposits with licensed banks or financial institutions and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of eight Directors, comprising five executive Directors and three independent non-executive Directors. The powers and duties of our Board include:

- determining and implementing our business strategies and business and investment plans;
- determining our annual budgets and preparing the required accounts for review by our Shareholders;
- exercising such other powers, functions and duties as conferred by our Articles of Association;
- convening Shareholders' meetings and reporting at Shareholders' meetings the operating results of our Group;
- formulating our proposal for profit distribution and other equity-related transactions; and
- implementing the resolutions passed at Shareholders' meetings.

The table below sets out certain information in respect of our Directors.

| Name | Age | Position(s) in our Company | Date of joining us | Date of appointment as a Director | Roles and responsibilities | Relationship with other Directors or senior management |
|--------------------------|-----|---|-----------------------|---|---|--|
| LU Ruibo (陸瑞博) | 55 | Executive Director, Chairman, Chief Executive Officer | September 15, 1998 | January 8, 2008 | Chairman of our Board, and chairman of the nomination committee and member of the remuneration committee of our Board. Formulating our overall business development strategies and overseeing our overall business operations | Spouse of Ms. WANG |
| WANG Hui, Ina (王輝) .. | 48 | Executive Director | March 1, 1999 | March 11, 2008 | Leading the global business and development of our aerospace and medical segments and leading the overall operations of Impro USA, and in charge of our marketing, contract management, and legal affairs | Spouse of Mr. LU |

DIRECTORS AND SENIOR MANAGEMENT

| Name | Age | Position(s) in our Company | Date of joining us | Date of appointment as a Director | Roles and responsibilities | Relationship with other Directors or senior management |
|------------------------------|-----|------------------------------------|-----------------------|---|---|--|
| YU Yuepeng (余躍鵬). | 48 | Executive Director | September 15, 1998 | November 9, 2015 | Leading the operations of Plant 1, Plant 5 and Plant 9, in charge of related financial approvals and cost control of our regional headquarters in China and China region purchasing department | None |
| ZHU Liwei (朱力微) | 50 | Executive Director | September 15, 1998 | March 11, 2008 | Leading the operations of Plant 3, Plant 4, and Plant 8 | None |
| WANG Dong (王東)... | 43 | Executive Director | October 13, 2001 | December 29, 2017 | Leading the operations of Plant 2, Plant 6, and Plant 7 | None |
| YU Kwok Kuen Harry (余國權). | 50 | Independent non-executive Director | N/A | April 1, 2019 ⁽¹⁾ | Supervising our compliance and corporate governance matters and providing independent views and advice to our Board, chairman of the audit committee and member of the remuneration committee of our Board | None |
| YEN Gordon (嚴震銘). | 49 | Independent non-executive Director | N/A | April 1, 2019 ⁽¹⁾ | Supervising our compliance and corporate governance matters and providing independent views and advice to our Board, member of each of the audit committee and nomination committee of our Board | None |
| LEE Siu Ming (李小明). | 43 | Independent non-executive Director | N/A | April 1, 2019 ⁽¹⁾ | Supervising our compliance and corporate governance matters and providing independent views and advice to our Board, member of the audit committee and the nomination committee and chairman of the remuneration committee of our Board | None |

Note:

- (1) Mr. YU Kwok Kuen Harry, Dr. Gordon YEN, and Mr. LEE Siu Ming were appointed as independent non-executive Directors on June 15, 2018 and each resigned on December 31, 2018 because of changes in the timetable for the Listing.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following sets forth certain information in respect of our senior management team:

| Name | Age | Position(s) in our Group | Date of joining us | Date of appointment as senior management | Roles and responsibilities | Relationship with Directors or other senior management |
|-------------------------------------|-----|---|-----------------------|---|--|---|
| YILMAZ Koray Mert..... | 41 | Group Vice President, President of Impro Industries Mexico, President of Cengiz Makina, Vice President of Impro USA | October 19, 2009 | August 26, 2014 | Leading the global business development of our precision machining business (non-aerospace and medical), and leading the plant and business operations of Cengiz Makina and Impro Industries Mexico and the related production plants, i.e. CMTR-1, CMTR-2, and IMMX, and the auto business of Impro USA; and supporting the auto business of Impro-Bees Bearing | None |
| IP Wui Wing Dennis (葉滙榮)..... | 43 | Chief Financial Officer and Company Secretary, Director of Cengiz Makina and Impro Industries Mexico | December 12, 2016 | December 12, 2016 | Overseeing our financial management and control as well as overseeing our finance, compliance, investor relations, and company secretarial matters | None |
| SUN Xiaohao (孫嘯昊)..... | 42 | Group Vice President | January 18, 2018 | January 18, 2018 | Leading our business strategy, investment, merger and acquisition, integration matters; overseeing our corporate marketing and promotional activities | None |
| ZHUANG Xulei (莊緒雷)..... | 45 | Managing Director and Chief Engineer of Impro Aerospace Wuxi, Executive Director and General Manager of Impro-Bees Plating & Painting | September 15, 1998 | July 9, 2015 | Managing the operations of Impro Aerospace Wuxi and Impro-Bees Plating & Painting | None |

DIRECTORS AND SENIOR MANAGEMENT

| Name | Age | Position(s) in our Group | Date of joining us | Date of appointment as senior management | Roles and responsibilities | Relationship with Directors or other senior management |
|--------------------------------|-----|---|-----------------------|---|--|---|
| SHEN Kun (沈昆)..... | 49 | Executive Director and General Manager of Shenhai Industrial | November 4, 2014 | December 8, 2017 | Managing the operations of Plant 8, overseeing our operation of plating and surface treatment | None |
| CHEN Kailiang (譙開良)..... | 38 | Managing director of Impro Europe, Impro Germany, BFG-Czech, BFG-Hessen, and BFG Niederrhein | November 22, 2017 | November 22, 2017 | Overseeing the overall sales, business development, and operations of Impro Europe and Impro Germany; overseeing the overall business development and operations of BFG-Hessen, BFG-Czech, and BFG- Niederrhein | None |
| DENG Mingquan (鄧明泉) | 40 | Executive Director of Impro Taizhou and General Manager of Plant 6, Plant 7 and Plant 9 | August 21, 2017 | April 18, 2019 | Managing the operations of Plant 6, Plant 7 and Plant 9, overseeing the customer service department of industrial components | None |
| ZHANG Rangli (張讓利)..... | 43 | Managing Director of Plant 1 | March 18, 2019 | April 4, 2019 | Managing the operations of Plant 1, overseeing our operation of investment casting and heat treatment products, managing the customer service department of automotive components | None |
| ZHANG Mingmei (張明媚)..... | 42 | Business Development Director | May 14, 2001 | December 29, 2016 | Monitoring and improving quotation process, reviewing customer agreements, managing periodic sales prediction and analysis and being responsible for staff training | None |

DIRECTORS AND SENIOR MANAGEMENT

Our Executive Directors

Mr. LU Ruibo (陸瑞博), previously known as LU Jianqiu (陸建秋), aged 55, is an executive Director, the Chairman of our Board and our Chief Executive Officer. Mr. LU has over 34 years' experience in mechanical engineering and industrial engineering. Mr. LU is the founder of our Group. With his extensive experience in manufacturing industry, Mr. LU is responsible for formulating our overall business development strategies and overseeing our Group's overall operations. Prior to founding our Group in September 1998, Mr. LU worked at Jiangyin Bearing Factory (江陰市軸承廠), which then specialized in the manufacturing of bearing products, from May 1992 to July 1998, and Jiangyin Micro-Bearing Factory (江陰市微型軸承廠), which then specialized in the manufacturing of micro-bearing products, from September 1988 to May 1992, where he was respectively responsible for overseeing the production process. During the period between August 1984 and September 1988, Mr. LU served as a technician at Wuxi Textile Machinery Special Parts Plant (無錫紡織機械專件廠) (previously known as Wuxi Textile Machinery Research Institute (無錫紡織機械研究所), an entity in China engaged in the production of textile parts, and thereby accumulated practical experience in managing the production process in manufacturing businesses.

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

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

Ms. WANG Hui, Ina (王輝), aged 48, is an executive Director and our Group Vice President leading the global business and development of our Group's aerospace and medical segments. Ms. WANG is also in charge of our Group's marketing, contract management and legal affairs. Ms. WANG has been the president of Impro USA since September 2010 and leads the overall operations of Impro USA. Ms. WANG joined Impro USA in March 1999 and set up and managed our Group's sales offices in the United States and Europe. Ms. WANG has been responsible for our business development and sales contracts negotiation and management, and was in charge of the group's human resources and information technology departments. Under Ms. WANG's leadership, we implemented the enterprise resource planning (ERP) systems across all members of our Group in 2011. Ms. WANG was our Group's Vice President from June 2008. At present, Ms. WANG is the president of Impro Aerospace Mexico and executive director of Impro International. Ms. WANG has over 18 years' experience in international trade, sales and marketing and overseas operational management activities. This previous working experience equipped Ms. WANG with the required practical skills and business connections for facilitating overseas marketing activities.

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. YU Yuepeng (余躍鵬), aged 48, is an executive Director and our Group Vice President leading the operations of Plant 1, Plant 5 and Plant 9. Mr. YU is also in charge of related financial approvals and cost control of our regional headquarters in China and China region purchasing department. Mr. YU joined us in September 1998 and has worked as the director and chief manager of Impro Aerospace Wuxi, the deputy chief manager of Impro China, the assistant manager and the assistant to chief manager of Impro-Bees Bearing. Mr. YU is currently president of Impro China, president of Impro Impeller and vice president of Impro Industries Mexico.

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

Ms. ZHU Liwei (朱力微), aged 50, is an executive Director and Group Vice President leading the operations of Plant 3, Plant 4 and Plant 8 in the China region. Ms. ZHU has more than 20 years' experience in the industrial engineering industry. Ms. ZHU joined Wuxi Viking, the predecessor of Impro China, in July 1995 and from September 1998 to September 2006, Ms. ZHU was its general manager responsible for its daily operations. Ms. ZHU was our Vice President from September 2006 to December 2017, responsible for the purchasing department of the China region and the operations of our Plant 2, Plant 3 and Plant 4. Ms. ZHU has been in charge of the aerospace and medical business of our Group since January 2014. Ms. ZHU is currently the president of Impro Aerospace Wuxi.

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

Mr. WANG Dong (王東), aged 43, is our executive Director and is responsible for the operations of Plant 2, Plant 6, and Plant 7. Mr. WANG also currently serves as director of Impro Industries Mexico and Cengiz Makina. Mr. WANG has more than 19 years' experience in manufacturing of high-precision machining components and parts. Mr. WANG joined us in October 2001 and worked as the manager for production and logistics of Impro-Bees Machinery; the deputy general manager of Impro China; the deputy general manager of Impro Aerospace Wuxi; the executive deputy general manager of Impro Yixing; the director of Impro Impeller and the executive director and general manager of Impro Taizhou. Before joining us, Mr. WANG served as a technician and an engineer at Wuxi Weifu Group Co., Ltd. (無錫威孚集團公司), a company engaged in the development, manufacturing and supply of components and parts for trucks, passenger cars, and construction machines, from July 1998 to July 2000, where he was responsible for product development.

DIRECTORS AND SENIOR MANAGEMENT

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

Our Independent Non-Executive Directors

Mr. YU Kwok Kuen Harry (余國權), aged 50, was appointed as our independent non-executive director on April 1, 2019. Mr. YU is experienced in the finance and accounting field. Mr. YU is the founder and director of JYU International Limited. Prior to founding JYU International Limited, Mr. YU was the chief operating officer of Golden Meditech Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 801), an integrated-healthcare enterprise in China, from August 2011 to June 2016, and also concurrently acted as an executive director of such company from September 2012 to June 2016. During his employment at Golden Meditech Holdings Limited, Mr. YU was principally responsible for identifying, evaluating, and negotiating potential investment opportunities, and was responsible for overseeing various capital transactions. Prior to joining Golden Meditech Holdings Limited, Mr. YU worked at KPMG China, an international accounting firm, from October 1991 to June 2011, during which he became a partner in July 2002. Mr. YU gained extensive experience in auditing consumer and industrial markets companies in Hong Kong and China and was involved in a wide range of corporate transactions. Since September 2018, Mr. YU has been appointed as an independent non-executive director of China Risun Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1907).

Mr. YU obtained a diploma in accountancy from the Morrison Hill Technical Institute, Hong Kong, in August 1991, and a master's degree in Business Administration through long distance learning awarded by Manchester Business School in co-operation with the School of Accounting, Banking and Economics at University of Wales, Bangor, the United Kingdom, in July 2000. Mr. YU has been a fellow at the Institute of Chartered Accountants in England and Wales since March 2015, a fellow of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) since April 2004, and a fellow of the Association of Chartered Certified Accountants since July 2001. Mr. YU has also been a registered auditor in the Macau Special Administrative Region since July 2011.

Save as disclosed above, Mr. YU has not acted as a director in other listed companies over the past three years.

Dr. YEN Gordon (嚴震銘), aged 49, was appointed as our independent non-executive director on April 1, 2019. Dr. YEN is currently the founding managing partner of Radiant Tech Ventures Limited, an innovation and technology venture capital firm, and is registered as a responsible officer under the SFO for Type 9 (asset management) regulated activities. Dr. YEN has over 20 years of management and operational experience in private and listed companies in investment, global supply chain, manufacturing and infrastructure industries. Dr. YEN has been an independent non-executive director of Hopewell Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 54) from May 2012 to May 2019. He was also an independent non-executive director of Hopewell Highway Infrastructure Limited (a company listed on the Hong Kong Stock Exchange, stock code: 737), a subsidiary of Hopewell Holdings

DIRECTORS AND SENIOR MANAGEMENT

Limited engaged in expressway infrastructure in China, from July 2003 to May 2012. Dr. YEN has also been the vice chairman since 28 August 2018 and a non-executive director since May 2013 of Fountain Set (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 420), prior to which he was the chief financial officer responsible for managing the group's financial operations from July 2012, and an executive director involved in financial and operational management from September 2004. Dr. YEN initially joined Fountain Set (Holdings) Limited as an assistant to chairman in 1999 responsible for business development and operation planning. Prior to that, Dr. YEN was a project director for Hopewell Holdings Limited or its subsidiaries, responsible for the development of overseas power generation projects, where he was employed since 1995.

Dr. YEN obtained a bachelor of science degree in manufacturing engineering from Boston University, the United States, in May 1990; a Master of Business Administration degree from McGill University, Canada, in June 1992, and a Doctor of Business Administration from The Hong Kong Polytechnic University in December 2005. Save for disclosed above, Dr. YEN has not acted as a director in other listed companies over the past three years.

Mr. LEE Siu Ming (李小明), aged 43, was appointed as our independent non-executive director on April 1, 2019. Mr. LEE has been the chief strategy officer and head of capital markets/corporate finance of VPower Group International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1608) since April 2017, prior to which he was the chief strategy officer and chief financial officer of Carnival Group International Holdings Limited, (a company listed on the Hong Kong Stock Exchange, stock code: 996) from March 2016 to January 2017. Mr. LEE has over 17 years of experience in investment banking and asset management, and worked at a number of investment banking institutions in Hong Kong such as BOCI Asia Limited, Morgan Stanley Asia Limited, Deutsche Bank AG, Hong Kong Branch, and BNP Paribas Peregrine Capital Limited from 1999 to 2016, where he participated in leading corporate finance and capital markets transactions. Mr. LEE's last position in investment banking was managing director of Global Coverage Centre at BOCI Asia Limited.

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

Save as disclosed above, Mr. LEE has not acted as a director in other listed companies over the past three years.

We have entered into service contracts with each of our executive Directors and have issued letters of appointment to each of our independent non-executive Directors. Each of the service contracts with our executive Directors and the letters of appointment with our independent non-executive Directors is for an initial term of three years.

Save as disclosed above and their respective interests or short positions (if any) as set out in the paragraphs under "C. Further Information about Our Directors and Our Substantial

DIRECTORS AND SENIOR MANAGEMENT

Shareholders — 2. Further Information About our Directors” in Appendix IV to this prospectus, there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other material matter relating to our Directors that is needed to be brought to the attention of our Shareholders.

Our Senior Management

Mr. YILMAZ Koray Mert, aged 41, is our Group Vice President leading the global business development of our Group’s precision machining business (non-aerospace and medical), as well as leading the plant and business operations of Cengiz Makina, Impro Industries Mexico and Impro-Bees Bearing. Mr. YILMAZ also assists in the management of Impro USA. Mr. YILMAZ is currently president of Impro Industries Mexico, president of Cengiz Makina and vice president of Impro USA. Mr. YILMAZ has more than 19 years’ experience in the precision machining and automotive industry. Before joining us, Mr. YILMAZ worked at Robert Bosch GmbH in Germany and Turkey from July 1999 to December 2008, where his last position was section manager for technical purchasing. Mr. YILMAZ joined Cengiz Makina in October 2009 as a technical coordinator and was promoted as the general manager in January 2013 and managing director in August 2014.

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

Mr. IP Wui Wing Dennis (葉滙榮), aged 43, was appointed as our Group Chief Financial Officer in December 2016 and Company Secretary in December 2017. Mr. IP is responsible for overseeing the finance, compliance, investor relations and company secretarial matters. Mr. IP also currently serves as a director of Impro Industries Mexico and Cengiz Makina. Prior to joining us, Mr. IP was involved in managing and overseeing the finance matters at a number of corporations, and participated in merger and acquisitions projects. Mr. IP was the chief financial officer and executive director of Braiform Holdings Limited, which is engaged in the provision of garment hangers and packing solutions, from November 2013 to December 2016; as well as Weiye (HK) Mining Holdings Company Limited, a company engaged in mining and trading of nickel ores, until November 2013. Mr. IP also worked at Gold Coin Holdings Sdn Bhd, which is engaged in animal nutrition and feed milling, at which his last position was group financial controller in finance division until March 2012; prior to which he was the group finance manager of The Zuellig Group, Inc., the parent group of Gold Coin Holdings Sdn Bhd and a multinational group engaged in healthcare, pharmaceutical distribution and agribusiness, from December 2004 to April 2011. From August 2002 to November 2004, Mr. IP worked at Hongkong International Terminals Limited, a renowned container port operator, and was responsible for financing and accounting matters and new port development, at which his last position was senior project officer. From September 1998 to August 2002, he served at Arthur Andersen & Co., an audit firm, where his last position was senior associate, and was involved in a number of audit and assurance, initial public offering and corporate advisory projects, including listed companies and conglomerates worldwide.

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. SUN Xiaohao (孫嘯昊), aged 42, was appointed as our Group Vice President (Business Strategy, Investment and Integration) on January 2018. Mr. SUN has over 18 years of experience in business strategy and investment. Mr. SUN was a senior founding member and director of Cobalt Equity Partners, a Pan Asia mid-market private equity fund, since March 2017. From May 2005 to February 2017, Mr. SUN worked at General Electric ("GE"), a multinational conglomerate corporation, at which, his last positions were director of GE private equity & business development and strategic partnership and marketing director of GE Capital China, and was responsible for equity investment transactions in industrial sections, and managing business strategy and capital markets initiatives for joint ventures. From 1998 to 2005, Mr. SUN worked at a number of industrial and consumer goods manufacturers, primarily engaged in marketing, strategy and product management activities. From September 2000 to May 2005, Mr. SUN worked at AmorePacific China (a manufacturer of beauty and cosmetics products), Saint-Gobain Abrasives China (a manufacturer of abrasives) and Loctite (China) Co., Ltd of Henkel (a German industrial adhesives manufacturer).

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

Mr. ZHUANG Xulei (莊緒雷), aged 45, is the managing director and chief engineer of Impro Aerospace Wuxi, and executive director and general manager of Impro-Bees Plating & Painting. Mr. ZHUANG has over 20 years' experience in the industrial engineering industry. Mr. ZHUANG joined Wuxi Viking, the predecessor of Impro China, in September 1998. Since September 1998, he has held various positions in Impro China, including manager of investment casting products department, manager of automobile parts products department, deputy chief engineer and chief engineer of Impro China and Impro Aerospace Wuxi. From December 2012 to July 2015, he was the general manager and chief engineer of Impro Aerospace Wuxi. In July 2015, Mr. ZHUANG was appointed as the managing director of Impro Aerospace Wuxi; and in November 2017, he was further appointed as the executive director of Impro-Bees Plating & Painting.

Mr. ZHUANG obtained a bachelor's degree in mechanical design and manufacturing from Taiyuan Heavy Machinery Institute (太原重型機械學院) (currently known as Taiyuan University of Science and Technology 太原科技大學), the PRC, in July 1998. In November 2005, he

DIRECTORS AND SENIOR MANAGEMENT

received Six Sigma Black Belt Certification from Caterpillar Inc.. Mr. ZHUANG was certified as an engineer by Wuxi City Human Resources and Social Security Department (無錫市人力資源和社會保障局) in September 2011 and a senior engineer by the Jiangsu Human Resources and Social Security Department (無錫市人力資源和社會保障廳) in November 2017.

Mr. SHEN Kun (沈昆), aged 49, is the executive director and general manager of Shenhai Industrial. Mr. SHEN has over 26 years' experience in the industrial engineering industry. Mr. SHEN was general manager of Impro Yixing from November 2014 to December 2017, general manager of Impro Taizhou from November 2015 to December 2017, and general manager of Impress Impeller from January 2017 to December 2017. Mr. SHEN was later appointed as the executive director and general manager of Shenhai Industrial since December 2017. Prior to joining us, Mr. SHEN worked at Wuxi Machine Tools Co., Ltd (無錫機床股份有限公司) Wuxi machine tool plant, a company manufacturing machine tools, from July 1992 to July 1997. From September 1997 to June 2000, he served as a manufacturing manager at Donaldson (Wuxi) Filter Co., Ltd. (唐納森(無錫)過濾器有限公司), which is a company providing filtration technology. Mr. SHEN later became the operating manager of Wuxi MI Technologies Co., Ltd., (模藝(無錫)塑料有限公司), which engages in box-building activities, precision injection plastic molding, tool design and fabrication, from June 2000 to December 2005. From February 2006 to February 2013, he joined Jiangsu Shuangyu Electric Material Co., Ltd (江蘇雙宇電工材料有限公司), a company engaging in magnet wire technology, as the general manager. Mr. SHEN then worked as the factory manager at Jones Tech PLC, Wuxi (北京中石偉業科技無錫有限公司), a company providing solution to improve the reliability of electronic equipment, from April 2013 to August 2014.

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

Mr. CHEN Kailiang (譔開良), aged 38, is the managing director of each of Impro Europe and Impro Germany, responsible for overall sales, business development and operations. Mr. CHEN is also concurrently the managing director of BFG-Czech, BFG-Hessen, and BFG-Niederrhein, in charge of their overall business development and operations. Prior to joining us in November 2017, Mr. CHEN was vice president at Gerresheimer AG in Germany, a group principally engaged in the manufacture of specialty glass and plastic products for pharmaceutical and healthcare use, from January 2015 to October 2017, where he was in charge of operations in Europe. From July 2010 to November 2014, Mr. CHEN was China sourcing manager, Asia sourcing manager and head of Asia supply chain at Danaher Corporate Asia, a group engaged in the design, manufacturing, and marketing of industrial and consumer products, where he was responsible for managing supply chain operations. From September 2008 to January 2011, he was a project engineer at Magna Mirrors Engineering GmbH in Germany, a producer of automotive mirror and vision systems, where he was responsible for leading product development. From June 2007 to April 2008, he was a supplier quality engineer at GE Jenbacher GmbH & Co OHG in Austria, a company engaged in the manufacture of Jenbacher gas engines and cogeneration modules, where he was principally responsible for supply quality of Jenbacher gas engines.

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Mr. CHEN obtained a bachelor's degree in electrical engineering and information technology (majoring in mechatronics) from the Technical University of Munich, Germany, in July 2006 and June 2007, respectively.

Mr. DENG Mingquan (鄧明泉), aged 40, is the executive director of Impro Taizhou and general manager of Plant 6, Plant 7 and Plant 9. Mr. DENG has nearly 14 years' experience in the industrial engineering industry. Mr. DENG joined our Group in August 2017 and worked as a sales director of industrial components of Impro USA until February 2018. From March 2018, Mr. DENG was appointed as the general manager of Plant 6, Plant 7 and Plant 9 as well as a director of the customer service department of industrial components. Prior to joining us, Mr. DENG worked as a purchasing manager in Caterpillar Inc., a manufacturer of construction and mining equipment, from August 2004 to June 2016.

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

Mr. ZHANG Rangli (張讓利), aged 43, is the managing director of Plant 1. Mr. ZHANG has nearly 13 years' experience in the industrial engineering industry. Mr. ZHANG joined our Group in March 2019. Prior to joining us, Mr. ZHANG served as the plant manager at BorgWarner Automotive Components (Jiangsu) Co., Ltd. (博格華納汽車零部件(江蘇)有限公司), which engaged in the manufacturing of automotive components and parts, from June 2008 to November 2018. Mr. ZHANG was the localization project manager of Bosch Automotive Products (Changsha) Co., Ltd. (博世汽車部件(長沙)有限公司), a company supplying auto parts and automotive software, from June 2006 to May 2008.

Mr. ZHANG obtained a bachelor's degree in mechanical design and manufacturing from China University of Mining and Technology (中國礦業大學), the PRC, in July 1999, and a master degree of business administration in international management conferred jointly by École nationale des ponts et chaussées (now renamed as École des Ponts ParisTech), France and Tongji University (同濟大學), the PRC, in October 2014.

Ms. ZHANG Mingmei (張明媚), aged 42, is our business development director. She has over 22 years' experience in the industrial engineering industry. From July 1997 to May 2001, Ms. ZHANG worked as a technician at Wuxi Drilling Tools Factory Co., Ltd (無錫鑽探工具廠有限公司), which is a company manufacturing drilling tools. She then joined Impro China in May 2001. Over the years, Mr. ZHANG served as manager of department of commerce at Impro China, manager of customer service department at Impro Yixing, and senior business development manager at Impro International. Since January 2017, she has been the Business Development Director of our Group.

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

DIRECTORS AND SENIOR MANAGEMENT

None of our senior management has been a director in listed companies over the past three years.

COMPANY SECRETARY

Please see the paragraph headed “Our Senior Management” above for the biography of Mr. IP, Wui Wing, Dennis (葉匯榮).

COMMITTEES OF OUR BOARD

Audit Committee

Our Board established an audit committee on June 15, 2018 in compliance with Rules 3.21 to 3.23 of the Listing Rules with terms of reference in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The primary duties of our audit committee are to review, supervise, and approve our financial reporting process and internal control system and to provide advice and comments to our Board. All members of the audit committee are independent non-executive Directors, namely Mr. YU Kwok Kuen Harry, Dr. YEN Gordon, and Mr. LEE Siu Ming. Mr. YU Kwok Kuen Harry is the chairman of the audit committee.

Remuneration Committee

Our Board established a remuneration committee on June 15, 2018 with terms of reference in compliance with Rule 3.25 of the Listing Rules. The remuneration committee considers and recommends to our Board the remuneration and other benefits paid by us to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by our remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

Members of the remuneration committee are Mr. LEE Siu Ming, Mr. YU Kwok Kuen Harry, and Mr. LU. Mr. LEE Siu Ming is the chairman of the remuneration committee.

Nomination Committee

Our Board established a nomination committee on June 15, 2018 with terms of reference in compliance with paragraph A5.1 of Appendix 14 to the Listing Rules. The primary responsibilities of the nomination committee are to consider and recommend to our Board suitable and qualified candidates of Directors and to review the structure, size and composition of our Board on a regular basis. Members of the nomination committee are Mr. LU, Dr. YEN Gordon, and Mr. LEE Siu Ming. Mr. LU is the chairman of the nomination committee.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, our Board has adopted a diversity policy which sets forth the objective

DIRECTORS AND SENIOR MANAGEMENT

and the approach to achieve and maintain an appropriate balance of diversity of perspectives of our Board. Pursuant to the diversity policy of our Board, selection of Directors will be based on a number of factors, including but not limited to, gender, skills, age, professional experience, knowledge, cultural and educational background, and length of service. The final decision of the appointment will be based on the merit and contribution that the selected candidate may bring to our Board.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. LU Ruibo is our 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.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPENSATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our business. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

The aggregate amount of remuneration paid by us to our Directors, including fees, salaries, retirement scheme contributions, discretionary bonuses and other allowances and other benefits in kind, during the three years ended December 31, 2018 was HK\$10.1 million, HK\$8.8 million, and HK\$11.5 million, respectively.

The aggregate amount of remuneration, including fees, salaries, retirement scheme contributions, discretionary bonuses and other allowances and other benefits in kind paid to the five highest paid individuals in our Group in respect of the three years ended December 31, 2018 was HK\$12.4 million, HK\$13.9 million and HK\$12.9 million, respectively.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the Listing, will receive recommendation from the remuneration committee that will take into account compensation packages offered by comparable companies, the performance of our Group and the experience, responsibilities and contribution of the relevant individual.

DIRECTORS AND SENIOR MANAGEMENT

PRE-IPO SHARE OPTION SCHEME AND POST-IPO SHARE OPTION SCHEME

In order to assist us in attracting, retaining and motivating our key employees, we have adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, pursuant to which we may grant options to eligible directors, officers and employees of our Group. A summary of each of the principal terms of the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme is set out in the paragraphs under “Share Option Schemes” in Appendix IV to this prospectus.

COMPLIANCE ADVISOR

We have appointed Southwest Securities (HK) Capital Limited as our compliance advisor (the “**Compliance Advisor**”) effective from the Listing Date in compliance with Rule 3A.19 of the Listing Rules under the following material terms:

- (a) the appointment is for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date or until the agreement is otherwise terminated earlier; and
- (b) the Compliance Advisor shall provide us with advice in the following circumstances pursuant to Rule 3A.23 of the Listing Rules:
 - (i) before the publication of any regulatory announcement, circular or financial report;
 - (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
 - (iii) if we propose to use the proceeds from the Global Offering in a manner different from the disclosure in this prospectus or if our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
 - (iv) if the Hong Kong Stock Exchange makes any inquiry to us regarding unusual movements in the trading prices or trading volume of our Shares.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and Capitalization Issue (without taking into consideration our Shares which may be issued and allotted or sold pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), Impro Development, being one of our Controlling Shareholders, will own 62.06% of the total number of our Shares in issue. Mr. LU, being the sole shareholder of Impro Development, one of our Controlling Shareholders, will also discharge his fiduciary duties and other duties to us as a Director. Nevertheless, the interest of our Controlling Shareholders may be different from the interest of other Shareholders. See the relevant risk in the section headed “Risk Factors — Risks Relating to our Corporate Structure” in this prospectus.

NON-DISPOSAL UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders, i.e. Impro Development and Mr. LU, has, jointly and severally, undertaken to the Joint Sponsors and the Joint Global Coordinators that none of them would dispose of their Shares held as of the Listing Date during the First Six-Month Period and the Second Six-Month Period, further particulars of which are set forth in the section headed “Underwriting — Undertakings pursuant to the Hong Kong Underwriting Agreement — Undertakings by our Controlling Shareholders” in this prospectus. Similar non-disposal undertakings have also been provided to the Hong Kong Stock Exchange, further particulars of which are set forth in the section headed “Underwriting — Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules — Undertakings by our Controlling Shareholders” in this prospectus.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Impro Development and Mr. LU. Impro Development is an investment holding company and is not engaged in any business activities. As of the Latest Practicable Date, Impro Development did not hold investments other than our Shares. Mr. LU, our Directors and their respective close associates has confirmed that he/she is not interested in any other business activities that compete with our business.

Management Independence

Our Board consists of eight Directors. Other than Mr. LU and Ms. WANG, there are three executive Directors and three independent non-executive Directors. Our executive Directors are responsible for the management of our Group as a whole. Each of our executive Directors is aware of his or her fiduciary duties as a director which require, among others, that he or she must act for the benefit of and in the best interest of our Company and not allow any conflict between his or her duties as a director and his or her personal interest.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In addition, where one of our Directors is also a director of one of our connected person or is otherwise interested in a transaction, such Director shall not be entitled to vote (nor shall be counted in the quorum in relation to) on any resolution relating to any transactions between our Company and such connected person or any transaction in which such Director has an interest unless otherwise permitted by the Articles.

We have employed the chief financial officer overseeing our financial matters and senior management team members overseeing our business operations. We also have a strong senior management team who is responsible for the daily management and operations of our Group. Except for Ms. WANG, all of them are independent from Mr. LU and his associates.

In light of the foregoing, our Directors consider that our Board and our senior management team are capable of managing our business independently from our Controlling Shareholders and their associates following completion of the Global Offering.

Operational Independence

In addition to the management independence set forth above, we have independent access to our customers and suppliers who are independent third parties. None of our Controlling Shareholders and their associates has any interest in any of our customers or suppliers. For procuring new customers, we have our own sales and marketing departments which are led by our senior management, and we have our own sourcing, marketing, production and distribution functions which are operated independently from our Controlling Shareholders. Accordingly we do not rely on our Controlling Shareholders or their associates for such crucial business functions.

Financial Independence

All the amounts due to or from our Controlling Shareholders and their associates were fully settled as of the Latest Practicable Date. The guarantees given by Mr. LU and Ms. WANG for our Group will also be released upon Listing. Our Directors believe that we are capable of obtaining our source of funding from debt and equity financing without any reliance on our Controlling Shareholders.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders and executive Directors (collectively, the “**Covenantors**”) has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as our Shares remain so listed on the Hong Kong Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

otherwise regarded as controlling shareholders (as defined in the Listing Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates (named in this prospectus) shall:

- (a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

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

- (a) if any new business opportunity relating to any of the products and/or services of the Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable the Company to evaluate the merits of the Business Opportunity.
- (b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

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

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (c) our Company will disclose with basis decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition in the annual reports of our Company; and
- (d) our Controlling Shareholders will make an annual confirmations on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering and the Capitalization Issue (without taking into consideration any Shares which may be issued and allotted or sold pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), Impro Development and Mr. LU are our Controlling Shareholders. The following table sets forth the number of Shares held by Impro Development immediately after completion of the Global Offering and the Capitalization Issue:

| Immediately after completion of the Global Offering and the Capitalization Issue (without taking into consideration any Shares which may be issued and allotted or sold pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme) | | |
|--|-------------------------|----------|
| Names of Shareholder | Number of Shares | % |
| Impro Development ⁽¹⁾⁽²⁾ | 1,137,790,787 | 62.06 |

Notes:

- (1) All issued shares of Impro Development are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development.
- (2) As of the date of this prospectus, Impro Development holds 969,331 Shares, representing 75.85% of the total number of Shares in issue.

OUR SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalization Issue and the Global Offering (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), the following persons will have an interest or short position in our Shares or our underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

| Name of Shareholder | Nature of interest | Immediately after completion of the Global Offering and Capitalization Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme) | |
|---|--------------------------------------|--|-------|
| | | Number of Shares | % |
| Impro Development..... | Beneficial owner | 1,137,790,787 | 62.06 |
| Mr. LU | Interested in controlled corporation | 1,137,790,787 | 62.06 |
| Baring ⁽¹⁾⁽²⁾ | Beneficial owner | 237,153,654 | 12.94 |
| Casting Holdings Limited ⁽¹⁾⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| The Baring Asia Private Equity Fund V, L.P. ⁽³⁾ . | Interest in controlled corporation | 237,153,654 | 12.94 |
| Baring Private Equity Asia GP V, L.P. ⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| Baring Private Equity Asia GP V Limited ⁽³⁾ .. | Interest in controlled corporation | 237,153,654 | 12.94 |
| Jean Eric Salata Rothleder ⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| GT Cedar ⁽⁴⁾⁽⁵⁾ | Beneficial owner | 95,267,123 | 5.20 |
| Genertec Investment Management Co. Ltd. ⁽⁶⁾ | Interest in controlled corporation | 95,267,123 | 5.20 |
| China General Technology (Group) Holding Company Limited ⁽⁶⁾ | Interest in 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) As of the date of this prospectus, Baring holds 202,041 Shares, representing 15.81% of the total number of Shares in issue.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

- (3) 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.
- (4) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.
- (5) As of the date of this prospectus, GT Cedar holds 81,162 Shares, representing 6.35% of the total number of Shares in issue.
- (6) 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.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Authorized share capital:

| | |
|--|----------------------|
| | <i>HK\$</i> |
| <u>13,500,000,000</u> Shares of par value HK\$0.1 each | <u>1,350,000,000</u> |

Assuming the Over-allotment Option is not exercised and without taking into consideration any Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and Capitalization Issue:

| | |
|--|----------------------|
| | <i>HK\$</i> |
| 1,277,912 Shares in issue as of the date of this prospectus | 127,791.2 |
| 1,498,722,088 Shares to be issued under the Capitalization Issue | 149,872,208.8 |
| <u>333,300,000</u> Shares to be issued under the Global Offering | <u>33,330,000.0</u> |
| <u>1,833,300,000</u> Shares in total | <u>183,330,000.0</u> |

Assuming the Over-allotment Option is exercised in full and without taking into consideration any Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering, Capitalization Issue and assuming the Over-allotment Option is fully exercised:

| | |
|---|----------------------|
| | <i>HK\$</i> |
| 1,277,912 Shares in issue as of the date of this prospectus | 127,791.2 |
| 1,498,722,088 Shares to be issued under the Capitalization Issue | 149,872,208.8 |
| <u>333,300,000</u> Shares to be issued under the Global Offering | <u>33,330,000.0</u> |
| Shares to be issued upon exercise of Over-allotment Option in full | <u>4,999,500.0</u> |
| <u>1,883,295,000</u> Shares in total | <u>188,329,500.0</u> |

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public (as defined in the Listing Rules).

RANKING

Our Offer Shares and our Shares which may be issued upon the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme will rank equally in all respects with all other existing Shares in issue or to be issued as set forth in the above table, and will qualify for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus except for the entitlement under the Capitalization Issue.

CAPITALIZATION ISSUE

Pursuant to the resolutions passed by our Shareholders at the Extraordinary General Meeting and the resolutions of our Directors passed on June 14, 2019, subject to the conditions set forth therein, our Directors are authorised to allot and issue a total of 1,498,722,088 Shares credited as fully paid at par to our Shareholders whose names appear on the register of members of our Company at the close of business on June 14, 2019 (or such other date as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of HK\$149,872,208.8 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the existing issued Shares.

SHARE OPTION SCHEMES

We have adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, pursuant to which we have granted the Pre-IPO Share Options and may grant option under the Post-IPO Share Option Scheme to eligible directors, officers and employees of our Group. A summary of the principal terms of the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme is set out in the paragraphs under “D. Share Option Schemes” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, and issue and deal with our Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the total number of our Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Share which may fall to be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme); and
- (ii) the total number of our Shares bought back by our Company (if any) under the Buy-back Mandate.

The allotment and issue of our Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on our Shares in accordance with the Articles, or on the exercise of options granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Post-IPO Share Option Scheme do not generally require the approval of Shareholders any option that may be granted in general meeting and the aggregate nominal amount of our Shares which our Directors were authorised to allot and issue pursuant to this mandate will not be compromised by the allotment and issue of such Shares.

This mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) upon the expiration of the period within which our Company is required by any applicable law or the Articles to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

Further information of the General Mandate is set forth in the paragraphs under "A. Further information about our Group — 4. Resolutions of our Shareholders" in Appendix IV to this prospectus.

SHARE CAPITAL

BUY-BACK MANDATE

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to buy-back Shares with a total number not exceeding 10% of the total number of our Shares in issue or to be issued immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme).

This mandate only relates to buy-back transactions made on the Hong Kong Stock Exchange, or any other approved stock exchange(s) on which the securities of our Company may be listed (and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules is set forth in the section headed “A. Further information about our Group — 5. Buy-back of our own securities by our Company” in Appendix IV to this prospectus.

This mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiration of the period within which our Company is required by any applicable law or Articles to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

Further information on the Buy-back Mandate, is set forth in the paragraphs under “A. Further Information about our Group — 4. Resolutions of our Shareholders” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED

Pursuant to the Cayman Companies Law and the Memorandum and the Articles, our Company may from time to time by ordinary shareholders’ resolution (i) increase our capital; (ii) consolidate our capital into shares of larger amount; (iii) divide our Shares into classes; (iv) subdivide our Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce our capital by Shareholders’ special resolution. Further information is set forth in the paragraphs under “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III to this prospectus.

SHARE CAPITAL

Further, all or any of the special rights attached to our Share or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of our shares of that class. Further information is set forth in the paragraphs under “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

CORNERSTONE INVESTMENT

CORNERSTONE INVESTMENT

As part of the International Offering, we entered into the Cornerstone Investment Agreement, pursuant to which the Cornerstone Investor has agreed to invest HK\$220.0 million for the subscription for the International Offer Shares at the Offer Price (inclusive of brokerage, trading fee and transaction levy), rounded down to the nearest board lot.

NUMBER OF INTERNATIONAL OFFER SHARES TO BE SUBSCRIBED BY THE CORNERSTONE INVESTOR

Based on the Offer Price of HK\$2.80 (being the low-end of the indicative range of the Offer Price), the total number of the International Offer Shares to be subscribed for by the Cornerstone Investor would be 77,780,000 Shares representing approximately (i) 25.93% of the initial number of International Offering Shares (assuming that the Over-allotment Option is not exercised) or (ii) 23.34% of the initial number of our Offer Shares or 4.24% of our entire issued share capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised) or (iii) 20.29% of the initial number of our Offer Shares or 4.13% of our entire issued share capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is exercised in full but the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised).

Based on the Offer Price is HK\$3.05 (being the mid-point of the indicative range of the Offer Price), the total number of the International Offer Shares to be subscribed for by the Cornerstone Investor would be 71,404,000 Shares representing approximately (i) 23.80% of the initial number of International Offering Shares (assuming that the Over-allotment Option is not exercised) or (ii) 21.42% of the initial number of our Offer Shares or 3.89% of our entire issued share capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised) or (iii) 18.63% of the initial number of our Offer Shares or 3.79% of our entire issued share capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is exercised in full but the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised).

Based on the Offer Price of HK\$3.30 (being the high-end of the indicative range of the Offer Price), the total number of the International Offer Shares to be subscribed for by the Cornerstone Investor would be 65,995,000 Shares representing approximately (i) 22.0% of the initial number of International Offering Shares (assuming that the Over-allotment Option is not exercised) or (ii) 19.80% of the initial number of our Offer Shares or 3.60% of our entire issued share capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised) or (iii) 17.22% of the

CORNERSTONE INVESTMENT

initial number of our Offer Shares or 3.50% of our entire issued share capital immediately upon completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is exercised in full but the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme are not exercised).

The investment contributed by the Cornerstone Investor will form part of the International Offering. The International Offer Shares to be subscribed for by the Cornerstone Investor (i) will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Capitalization issue and the Global Offering and (ii) will be counted towards the public float of our Company.

The actual number of our International Offer Shares to be allocated to the Cornerstone Investor will be disclosed in our announcement of results of allocations of our Offer Shares under the Global Offering on or around Thursday, June 27, 2019.

The Cornerstone Investor will not subscribe for any Offer Shares other than pursuant to the Cornerstone Investment Agreement. Immediately following completion of the Global Offering and the Capitalization Issue, the Cornerstone Investor will not have any Board representation in our Company, nor will the Cornerstone Investor become a substantial shareholder (as defined under the Listing Rules) of our Company. Hence, the Cornerstone Investor is independent of our Company, our connected persons and their respective associates. No special rights have been granted to the Cornerstone Investor pursuant to the investment made by the Cornerstone Investor.

The International Offer Shares to be subscribed by the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus.

INFORMATION ON THE CORNERSTONE INVESTOR

China Structural Reform Fund is a company incorporated in the PRC held by several state-owned enterprises. It is mainly engaged in business activities including non-public fund raising, equity investment, project investment, capital management, investment consulting and enterprise management consulting.

The Cornerstone Investor has engaged GF Securities Asset Management (Guangdong) Co., Ltd, an asset manager that is a qualified domestic institutional investor as approved by the relevant PRC authority (the “**QDII Manager**”), in the name of CEB-GFAM-China Structural Reform Fund Asset Management Account No.6, to subscribe for and hold the International Offer Shares on a discretionary basis on behalf the Cornerstone Investor. As GF Securities (Hong Kong) Brokerage Limited, one of the Joint Global Coordinators, is of the same group of companies as the QDII Manager, the QDII Manager is a connected client of GF Securities

CORNERSTONE INVESTMENT

(Hong Kong) Brokerage Limited under paragraph 13(7) of Appendix 6 to the Listing Rules. Accordingly, the participation of China Structural Reform Fund as the Cornerstone Investor through the QDII Manager is subject to the consent from the Stock Exchange under paragraph 5(1) of Appendix 6 to the Listing Rules.

An application has been made to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a consent under paragraph 5(1) of Appendix 6 to the Listing Rules to allow International Offer Shares to be allocated to the QDII Manager (to be held on behalf of China Structural Reform Fund) as a “connected client” of the Relevant Broker on the following conditions:

- (a) The Offer Shares to be allocated to the QDII Manager will be held on behalf of China Structural Reform Fund in funds or accounts on a discretionary basis where China Structural Reform Fund, being the beneficial owner, is an independent third party, as confirmed by the QDII Manager.
- (b) Our Company, the Relevant Broker and, to the best of the other Joint Bookrunners’ knowledge and belief, the other Joint Bookrunners confirm to the Hong Kong Stock Exchange that:
 - (i) the Relevant Broker has not participated and will not participate in the decision-making process or relevant discussions amongst our Company and the other Joint Global Coordinators and the Joint Bookrunners as to whether China Structural Reform Fund will be selected as a cornerstone investor; and
 - (ii) no preferential treatment has been nor will be given to the QDII Manager by virtue of its relationship with the Relevant Broker (other than the preferential treatment of assured entitlement under the Cornerstone Investment Agreement following the principles set forth in the Guidance Letter HKEx-GL51-13), nor are there material terms in the Cornerstone Investment Agreement which are more favourable to the QDII Manager than those in other cornerstone investment agreements, if applicable, and details of the allocation of International Offer Shares to China Structural Reform Fund will be disclosed in the allotment results announcement of the Global Offering to be published by our Company.
- (c) The QDII Manager confirms to the Joint Sponsors and the Hong Kong Stock Exchange that it has not received and will not receive preferential treatment in the allocation of the International Offer Shares on behalf of China Structural Reform Fund as the Cornerstone Investor by virtue of its relationship with the Relevant Broker, other than the preferential treatment of assured entitlement under the cornerstone investment.
- (d) Each of the Joint Sponsors confirms to the Hong Kong Stock Exchange that it has no reason to believe that the QDII Manager received any preferential treatment in the allocation of the International Offer Shares to China Structural Reform Fund as the Cornerstone Investor by virtue of the QDII Manager’s relationship with the Relevant Broker, other than the preferential treatment of assured entitlement under the cornerstone investment.

CORNERSTONE INVESTMENT

Please refer to the section headed “Waiver and Consent under the Listing Rules and Certificate of Exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Consent in respect of Allocation of Shares to a Connected Client of a Joint Global Coordinator” for details.

CONDITIONS PRECEDENT

The obligations of the Cornerstone Investor to subscribe for the International Offer Shares under the Cornerstone Investment Agreement are subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement shall have been entered into and become effective and all of the conditions precedent to completion set forth herein shall have been satisfied in accordance with their respective original terms (or as subsequently waived, to the extent it may be waived, by the relevant parties thereto) by no later than the respective time and date specified therein;
- (b) the Offer Price having been agreed by the Joint Global Coordinators and our Company in connection with the Global Offering;
- (c) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto;
- (d) the respective representations, warranties, undertakings, confirmation, agreements and acknowledgements of the Cornerstone Investor are and will be as of the respective dates set forth in the relevant Cornerstone Investment Agreement accurate and true in all material respects and not misleading and there is no material breach of the relevant Cornerstone Investment Agreement by our Company and the Cornerstone Investor;
- (e) the Listing Committee having granted or agreeing to grant the listing of, and permission to deal in, our Shares (including the Investor Shares as well as other applicable waivers and approvals) on the Main Board and that such approval or permission has not been revoked;
- (f) the Listing shall take place on or before July 31, 2019; and
- (g) no laws (as defined therein) shall have been enacted or promulgated by any Government Authority (as defined therein) which prohibits completion of the investment by the Cornerstone Investor and there shall be no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting completion of the investment by the Cornerstone Investor.

CORNERSTONE INVESTMENT

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTOR

Pursuant to the Cornerstone Investment Agreement, the Cornerstone Investor has agreed and undertaken that, without the prior written consent of our Company and the Joint Global Coordinators:

- (a) it shall not, whether directly or indirectly, at any time during a period of six months from and inclusive of the Listing Date (the “**Lock-up Period**”), (i) dispose of any Shares or other securities of our Company which are derived from our Shares (pursuant to any rights issue, capitalisation issue or other form of capital reorganization) (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares; (ii) undergo a change of control (as defined in The Codes on Takeovers and Mergers and Share Buy-Backs promulgated by the SFC) at the level of its ultimate beneficial owner; or (iii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction; and
- (b) at any time after the expiry of the Lock-up Period, in the event that the Cornerstone Investor enters into any transactions to dispose of any Relevant Shares, or agrees or contracts to, or publicly announces an intention to enter into any such transactions, the Cornerstone Investor shall first give reasonable notice to our Company and the Joint Global Coordinators in writing prior to the disposal of any Relevant Shares and shall take all reasonable steps to ensure that such disposal will not create a disorderly or false market in our Shares and will comply with all applicable laws and regulations and rules of securities exchanges of all competent jurisdictions including the Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, and the SFO.

Notwithstanding the above, the Cornerstone Investor may transfer all or part of the Relevant Shares to its wholly-owned subsidiaries, provided that the transferee will undertake that it will abide by the obligations of the Cornerstone Investor under the relevant Cornerstone Investment Agreement.

UNDERWRITING

HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited
BOCI Asia Limited
GF Securities (Hong Kong) Brokerage Limited
AMTD Global Markets Limited
DBS Asia Capital Limited

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters.

The Global Offering comprises the Hong Kong Public Offering of initially 33,330,000 Hong Kong Offer Shares and the International Offering of initially 299,970,000 International Offer Shares, subject, in each case, to adjustment on the basis as described in the section headed “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING AGREEMENT AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering initially 33,330,000 Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee granting the listing of, and permission to deal in, the Shares; (ii) the International Underwriting Agreement having been signed and becoming unconditional; and (iii) certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally and not jointly agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

UNDERWRITING

Grounds for Termination

The Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, and the Joint Sponsors shall be entitled by notice (orally or in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the Cayman Islands, the British Virgin Islands, the United States, the United Kingdom, Germany, the Czech Republic, Luxembourg, any member of the European Union, Turkey, Mexico, Singapore or any other jurisdiction relevant to any member of the Group or the Global Offering (collectively, the “**Relevant Jurisdictions**”); or
 - (ii) any change, or any development involving a prospective change (whether or not permanent), or any event or circumstance likely to result in any change or development involving a prospective change in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions or elsewhere; or
 - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Madrid Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European Union (or any member thereof), Japan, Singapore or any other Relevant Jurisdictions, or

UNDERWRITING

- any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or
- (v) any new laws, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in, or in the interpretation or application by any court or other competent authorities of, existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or
 - (vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
 - (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, Euro, Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
 - (viii) any proceedings of any third party being threatened or instigated against any member of the Group or the Controlling Shareholders; or
 - (ix) an authority or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group or any Director or the Controlling Shareholders; or
 - (x) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
 - (xi) any change or prospective change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
 - (xii) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC without the consent of the Joint Global Coordinators; or

UNDERWRITING

(xiii) an order or petition for the winding-up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or

(xiv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators and the Joint Sponsors:

(A) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or

(B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Offer Shares in the secondary market; or

(C) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or

(D) has or will have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Global Coordinators and the Joint Sponsors that:

(i) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(ii) the chairman or chief executive officer of the Company vacating his office; or

UNDERWRITING

- (iii) a contravention by any member of the Group of the Listing Rules or applicable laws; or
- (iv) a prohibition on the Company for whatever reason from offering, allotting, issuing, selling or delivering any of the Offer Shares (including the option shares) pursuant to the terms of the Global Offering; or
- (v) that any statement contained in any of this prospectus and the Application Forms and/or in any notices or announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate in any material respect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
- (vi) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (vii) any breach of any of the material obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (viii) any event, act or omission which gives or is likely to give rise to any liability of any of the Company and the Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement; or
- (ix) any adverse change, or any development involving a prospective adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or

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- (x) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings of the Company and the Controlling Shareholders as set out in the Hong Kong Underwriting Agreement; or
- (xi) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option which may be granted under the Post IPO Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (xiii) KPMG, Roland Berger or any of the counsel of the Company has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (xiv) any person (other than the Joint Sponsors) has withdrawn or is subject to withdrawal of its consent to being named in any of this prospectus and the Application Forms or to the issue of any of this prospectus and the Application Forms; or
- (xv) the Stock Borrowing Agreement is not duly authorized, executed and delivered or it is terminated; or
- (xvi) a material portion of the orders in the book-building process or the investment commitments by any cornerstone investors after signing of the cornerstone investment agreement entered into between the Company, the Joint Global Coordinators and other cornerstone investors, have been withdrawn, terminated or cancelled.

UNDERTAKINGS TO THE HONG KONG STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertakings by us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be allotted or issued by us or form the subject of any agreement to such an allotment or issue by us within six months from the Listing Date, except in circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange that except pursuant to the Capitalization Issue, the Global Offering and the Over-allotment Option and the lending of any Shares pursuant to the Global Offering, it shall not and shall procure that the relevant registered holder(s) not to:

- (a) in the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; or
- (b) in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Pursuant to Note 3 to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholder has further undertaken to the Hong Kong Stock Exchange and our Company that, within the period commencing from the date of this prospectus and ending on a date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any securities of our Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such securities of our Company so pledged or charged; and
- (b) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

We have agreed and undertaken to the Hong Kong Stock Exchange that, we shall inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

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UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertakings by us

Pursuant to the Hong Kong Underwriting Agreement, except for the issue, offer and sale of the Shares pursuant to the Pre-IPO Share Option Scheme and/or the Post-IPO Share Option Scheme, and except for the issue, offer, allotment and issue of the Offer Shares pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) at any time during the period after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-Month Period**”), we have undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters not to, and to procure each other member of the Group not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of our Company or any share capital or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any share capital or other equity securities of our Company or any share capital or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing), or deposit any share capital or other securities convertible into equity securities of our Company or any share capital or other equity securities of such other member of the Group, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or other equity securities of our Company, or any such share capital or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any share capital or other equity securities of our Company or any share capital or other equity securities of such other member of the Group, as applicable, or any interest in any of the foregoing); or

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- (c) enter into any transaction with the same economic effect as any transaction described in sub-paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction described in paragraph (a) or (b) above,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other equity securities of our Company or share capital or other equity securities of such other member of the Group, as applicable, in cash or otherwise (whether or not the issue of such share capital or other securities convertible into equity securities will be completed within the First Six-Month Period). Our Company further agrees that, in the event that our Company enters into any of the transactions described in sub-paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company shall take all reasonable steps to ensure that such any such transaction, offer, agreement or announcement will not, and no other act of our Company will, create a disorderly or false market in the securities of our Company.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except as pursuant to the Capitalization Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the Stock Borrowing Agreement, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) he/it will not, during the First Six-Month Period:
 - (i) offer, pledge, charge, sell, contract to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of our Company); or

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- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such capital or securities or any interest therein; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in sub-paragraphs (a)(i) or (a)(ii) above; or
 - (iv) offer to or agree to do any of the foregoing or announce any intention to do so, whether any such transaction described in sub-paragraphs (a)(i), (a)(ii) or (a)(iii) above is to be settled by delivery of such capital or securities, in cash or otherwise; and
- (b) he/it will not enter into any transaction described in sub-paragraphs (a)(i), (a)(ii), (a)(iii) or (a)(iv) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transaction, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the Second Six-Month Period; and
- (c) until the expiry of the Second Six-Month Period, in the event that he/it enters into any such transactions specified in (a)(i), (a)(ii), (a)(iii) or (a)(iv) above or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of our Company.

Each of our Controlling Shareholders has further undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters that, within a period commencing on the date of the Hong Kong Underwriting Agreement and ending on a date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any Shares or securities of our Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, to the extent permitted by applicable law, immediately inform the Joint Global Coordinators of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and
- (b) when he/it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, to the extent permitted by applicable law, immediately inform the Joint Global Coordinators of such indications.

UNDERWRITING

UNDERTAKINGS BY BARING PURSUANT TO THE BARING LOCK-UP DEED

Pursuant to the Baring Lock-Up Deed, Baring has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that it will not, without the prior written consent of the Company and the Joint Global Coordinators (for itself and on behalf of the Underwriters), at any time during the First Six-Month Period:

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly by Baring as of the Listing Date or with respect to which Baring has beneficial ownership) (collectively, the “**Baring Lock-up Shares**”);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Baring Lock-up Shares or any interest therein any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that present the right to receive, or any warrants or other rights to purchase, any Baring Lock-up Shares);
- (c) enter into any transaction with the same economic effect as any transaction described in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction described in (a) or (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the Baring Lock-up Shares or in cash or otherwise.

UNDERTAKINGS BY GT CEDAR PURSUANT TO THE GT CEDAR LOCK-UP DEED

Pursuant to the GT Cedar Lock-Up Deed, GT Cedar has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that it will not, without prior written consent of the Company and the Joint Global Coordinators (for itself and on behalf of the Underwriters) at any time during the First Six-Month Period (the “**Lock-up Period**”):

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise

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create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly by GT Cedar as of the Listing Date or with respect to which GT Cedar has beneficial ownership) (collectively, the “**GT Cedar Lock-up Shares**”);

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the GT Cedar Lock-up Shares or any interest therein any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that present the right to receive, or any warrants or other rights to purchase, any GT Cedar Lock-up Shares);
- (c) enter into any transaction with the same economic effect as any transaction described in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction described in (a) or (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the GT Cedar Lock-up Shares or in cash or otherwise.

UNDERTAKINGS BY ASF RADIO PURSUANT TO THE ASF LOCK-UP DEED

Pursuant to the ASF Lock-Up Deed, ASF Radio has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that it will not, without prior written consent of the Company and the Joint Global Coordinators (for itself and on behalf of the Underwriters) at any time during the period of 90 days immediately after the Listing Date (the “**Lock-up Period**”):

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly by ASF Radio as of the Listing Date or with respect to which ASF Radio has beneficial ownership) (collectively, the “**ASF Lock-up Shares**”);

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- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the ASF Lock-up Shares or any interest therein any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that present the right to receive, or any warrants or other rights to purchase, any ASF Lock-up Shares);
- (c) enter into any transaction with the same economic effect as any transaction described in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction described in (a) or (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the ASF Lock-up Shares or in cash or otherwise.

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or to purchase, their respective proportions of the International Offer Shares being offered under the International Offering.

Under the International Underwriting Agreement, it is expected that we will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, at any time within 30 days from the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 49,995,000 additional Shares, representing 15.0% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations, if any, in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We have agreed to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

UNDERWRITING COMMISSIONS AND LISTING EXPENSES

The Underwriters will receive an underwriting commission per Offer Share of 3% of the Offer Price from our Company (including Offer Shares sold pursuant to the Over-allotment Option). Our Company may pay the Underwriters an incentive fee up to 1% of the Offer Price

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per Offer Share to be awarded at the Company's discretion. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering, and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate underwriting commissions and the incentive fee (assuming full payment), together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy, the Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering to be borne by us, are estimated to be approximately HK\$113.1 million (based on an Offer Price of HK\$3.05 per Share, being the mid-point of the Offer Price range stated in this prospectus and the assumption that the Over-allotment Option is not exercised).

The listing expenses payable by the Company, in connection with the issue of additional Shares pursuant to the exercise of the Over-allotment Option in full (based on an Offer Price of HK\$3.05 per Share, being the mid-point of the Offer Price range) are estimated to be HK\$6.1 million.

The two Joint Sponsors are entitled to an aggregate sponsor fee of US\$1.25 million.

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that each of the underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "**Syndicate Members**," may individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for the Stabilizing Manager or its designated affiliate as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transaction relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the accounts of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into over the counter or listed derivative transactions or listed and unlisted

UNDERWRITING

securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving directly or indirectly, buying and selling the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering — Stabilization” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares’ share price, and the extent to which this occurs from day to day cannot be estimated.

OTHER SERVICES TO OUR GROUP

Certain of the Joint Global Coordinators, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided an expert to provide in the future investment banking and other services to our Group and our respective affiliates, for which such Joint Global Coordinators, Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

UNDERWRITERS’ INTEREST IN OUR GROUP

Except as disclosed in this prospectus and the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, none of the Underwriters has any shareholding interest in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

JOINT SPONSORS’ INDEPENDENCE

Each of Morgan Stanley Asia Limited and BOCI Asia Limited satisfies the independent criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of 33,330,000 new Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “— The Hong Kong Public Offering;” and
- (b) the International Offering of 299,970,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S, and in the United States only to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act, as described below in “— the International Offering.”

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, at any time within 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 49,995,000 additional Shares, representing 15.0% of the initial number of Offer Shares under the Global Offering, at the Offer Price, to cover over-allocations, if any, in the International Offering.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- apply for or indicate an interest for the International Offer Shares under the International Offering,

but may not do both.

The 333,300,000 Offer Shares in the Global Offering will represent approximately 18.18% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 20.35% of our enlarged share capital immediately following the completion of the Global Offering.

References to applications, Application Forms, application or subscription monies, or procedure for applications relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

We are initially offering 33,330,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set forth below in “— Conditions of the Global Offering.”

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

Pool A: the Offer Shares will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee); and

Pool B: the Offer Shares will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee).

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefor

STRUCTURE OF THE GLOBAL OFFERING

(without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 16,665,000 Hong Kong Offer Shares will be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange, if the Offer Shares under the International Offering are fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares will be increased to 99,990,000 Offer Shares (in the case of (i)), 133,320,000 Offer Shares (in the case of (ii)) and 166,650,000 Offer Shares (in the case of (iii)), representing 30.0%, 40.0% and 50.0% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), respectively. In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

If (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100%, but less than 15 times, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100% of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Joint Global Coordinators may, at their discretion, reallocate the Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 66,660,000 Offer Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low end of the Offer Price range (that is, HK\$2.80 per Offer Share) stated in this prospectus in accordance with Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange.

STRUCTURE OF THE GLOBAL OFFERING

Subject to the above, the Joint Global Coordinators shall have the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustment of the number of Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$3.30 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “— Pricing and Allocation” below, is less than the maximum price of HK\$3.30 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For more details, see “How to Apply for Hong Kong Offer Shares.”

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Offering 299,970,000 Shares, representing 90.0% of the Offer Shares under the Global Offering and approximately 16.36% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at particular price. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to hold or sell its Shares, after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares under the International Offering on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and our shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time during the 30-day period from the last day for lodging applications under the Hong Kong

STRUCTURE OF THE GLOBAL OFFERING

Public Offering, to require our Company to issue up to 49,995,000 Shares, representing 15.0% of the total number of the Offer Shares initially available under the Global Offering, under the International Offering to, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Shares to be issued by our Company pursuant thereto will represent approximately 2.65% of our issued share capital immediately following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if taken, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for the lodging applications under the Hong Kong Public Offering. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;

STRUCTURE OF THE GLOBAL OFFERING

- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on Sunday, July 21, 2019, being the 30th day after the last day of closing of the application lists under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Offer Shares. Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

Stock Borrowing Arrangement

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 49,995,000 Shares, representing 15.0% of the Offer Shares (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), from Impro Development, a Controlling Shareholder, pursuant to the Stock Borrowing Agreement which is expected to be entered into between the Stabilizing Manager and Impro Development. Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with.

STRUCTURE OF THE GLOBAL OFFERING

Such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to Impro Development or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option having been issued and allotted by the Company, or (c) such earlier time as the Stabilizing Manager and Impro Development may agree in writing. No payment will be made to Impro Development by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us, and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, June 21, 2019 (Hong Kong time), and in any event, no later than Tuesday, June 25, 2019 (Hong Kong time). Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

The Offer Price will not be more than HK\$3.30 and is expected to be not less than HK\$2.80, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum offer price of HK\$3.30 per Offer Share, plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.30, we will refund the respective difference, including the brokerage fee, the Hong Kong Stock Exchange trading fee and the SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see “How to Apply for Hong Kong Offer Shares.”

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators, on behalf of the Hong Kong Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our

STRUCTURE OF THE GLOBAL OFFERING

Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of the reduction and posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on our website (www.improrecision.com) (the contents of the website do not form a part of this prospectus).

Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by us and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in the section “Summary,” and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) will under no circumstances be set outside the Offer Price range stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

The Offer Price, an indication of the level of interest in the International Offering, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/ passport/ Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies.”

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the agreement on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section “Underwriting.”

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on, among others:

- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including any Shares which may be sold or issued by us pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme);
- the Offer Price being duly agreed among our Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters);
- the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on or before Tuesday, June 25, 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse

STRUCTURE OF THE GLOBAL OFFERING

of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on our website (www.improrecision.com) on the next day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set forth in the section “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 28, 2019, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Friday, June 28, 2019.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares is 1286.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website www.eipo.com.hk of the White Form eIPO service; or
- give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

None of you or your joint applicant(s) may make more than one application (whether individually or jointly), except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States, and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of China (except qualified domestic institutional investors).

If you apply online through the White Form eIPO service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the White Form eIPO service for the Hong Kong Offer Shares.

We, the Joint Global Coordinators or the designated White Form eIPO Service Provider (where applicable), or our or their respective agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a close associate of any of the above;
- a core connected person of our Company (or the subsidiaries) or will become a core connected person of our Company (or the subsidiaries) immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through White Form eIPO service at www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Tuesday, June 18, 2019 until 12:00 noon on Friday, June 21, 2019 from:

- any of the following offices of the Hong Kong Underwriters:

| | |
|--|---|
| Morgan Stanley Asia Limited | 46/F, International Commerce Centre 1 Austin Road West Kowloon, Hong Kong |
| BOCI Asia Limited | 26/F, Bank of China Tower 1 Garden Road, Central Hong Kong |
| GF Securities (Hong Kong) Brokerage Limited | 29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong |
| AMTD Global Markets Limited | 23/F - 25/F, Nexxus Building 41 Connaught Road Central Hong Kong |
| DBS Asia Capital Limited | 73rd Floor, The Center 99 Queen's Road Central Hong Kong |

- any of the following branches of the receiving bank, Bank of China (Hong Kong) Limited:

| | Branch name | Address |
|-------------------------------|---|--|
| Hong Kong Island | Aberdeen Branch | 25 Wu Pak Street, Aberdeen, Hong Kong |
| | Central District (Wing On House) Branch | B/F-2/F, Wing On House, 71 Des Voeux Road Central, Hong Kong |
| Kowloon | Kwun Tong Plaza Branch | G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon |
| | Whampoa Garden Branch | Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon |
| | Yau Ma Tei Branch | 471 Nathan Road, Yau Ma Tei, Kowloon |

HOW TO APPLY FOR HONG KONG OFFER SHARES

| | <u>Branch name</u> | <u>Address</u> |
|------------------------------|-----------------------|--|
| New Territories | Fanling Centre Branch | Shop 2D-E & H, Fanling Centre, Fanling, New Territories |
| | Kau Yuk Road Branch | 18-24 Kau Yuk Road, Yuen Long, New Territories |
| | Citywalk Branch | Shop 65 & 67-69 G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan, New Territories |

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, June 18, 2019 until 12:00 noon on Friday, June 21, 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — IMPRO PRECISION PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, June 18, 2019 — 9:00 a.m. to 5:00 p.m.
Wednesday, June 19, 2019 — 9:00 a.m. to 5:00 p.m.
Thursday, June 20, 2019 — 9:00 a.m. to 5:00 p.m.
Friday, June 21, 2019 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, June 21, 2019, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form(s) and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- agree to disclose to the Company, the Hong Kong Share Registrar, receiving bankers, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and (c) the purchaser is not an “affiliate” (within the meaning of Regulation S) of our Company or a person acting on the behalf of our Company or an affiliate of the Company;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company’s register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to deposit share certificate(s) into CCASS and to send any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for **YELLOW** Application Forms

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “— 2. Who Can Apply” in this section, may apply through the White Form eIPO service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk from 9:00 a.m. on Tuesday, June 18, 2019 until 11:30 a.m. on Friday, June 21, 2019 (24 hours daily, except on the last application day) and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, June 21, 2019 or such later time under “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

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No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated **White Form eIPO** Service Provider will contribute HK\$2 for each “IMPRO PRECISION INDUSTRIES LIMITED” **White Form eIPO** application submitted via the website www.eipo.com.hk to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that our Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bankers, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially

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unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, June 18, 2019 — 9:00 a.m. to 8:30 p.m.
Wednesday, June 19, 2019 — 8:00 a.m. to 8:30 p.m.
Thursday, June 20, 2019 — 8:00 a.m. to 8:30 p.m.
Friday, June 21, 2019 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, June 18, 2019 until 12:00 noon on Friday, June 21, 2019 (24 hours daily, except on June 21, 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, June 21, 2019, the last application day or such later time as described in “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

Note:

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which

HOW TO APPLY FOR HONG KONG OFFER SHARES

you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, June 21, 2019.

HOW TO APPLY FOR HONG KONG OFFER SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation.”

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 21, 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, June 21, 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

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11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, June 27, 2019 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at www.improrecision.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.improrecision.com and the Hong Kong Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, June 27, 2019;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, June 27, 2019 to 12:00 midnight on Wednesday, July 3, 2019;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, June 27, 2019 to Sunday, June 30, 2019;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, June 27, 2019 to Saturday, June 29, 2019 at all the designated branches of the receiving bank.

If the Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details, see "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

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- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$3.30 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, June 27, 2019.

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14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, June 27, 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, June 28, 2019 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

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Personal Collection

(i) ***If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 27, 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, June 27, 2019, by ordinary post and at your own risk.

(ii) ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, June 27, 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, June 27, 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

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- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 27, 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the White Form eIPO Service*

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 27, 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, June 27, 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) on or before Thursday, June 27, 2019 by ordinary post at your own risk.

(iv) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, June 27, 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Thursday, June 27, 2019. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 27, 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, June 27, 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 27, 2019.

HOW TO APPLY FOR HONG KONG OFFER SHARES

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-105, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF IMPRO PRECISION INDUSTRIES LIMITED, MORGAN STANLEY ASIA LIMITED AND BOCI ASIA LIMITED

Introduction

We report on the historical financial information of Impro Precision Industries Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-105, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2016, 2017 and 2018 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended December 31, 2016, 2017 and 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-105 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 18, 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for historical financial information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk

assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at December 31, 2016, 2017 and 2018 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 32 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its incorporation.

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

June 18, 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

| | Notes | 2016 | 2017 | 2018 |
|--|-------|--------------------|--------------------|--------------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | 4 | 2,547,214 | 3,049,143 | 3,749,113 |
| Cost of sales | | <u>(1,777,877)</u> | <u>(2,071,271)</u> | <u>(2,541,346)</u> |
| Gross profit | | 769,337 | 977,872 | 1,207,767 |
| Other revenue | 5(a) | 147,546 | 16,903 | 36,862 |
| Other net loss | 5(b) | (34,103) | (32,022) | (160,203) |
| Selling and distribution expenses | | (107,519) | (121,768) | (162,254) |
| Administrative and other operating expenses | | <u>(287,308)</u> | <u>(284,640)</u> | <u>(347,740)</u> |
| Profit from operations | | 487,953 | 556,345 | 574,432 |
| Net finance costs | 6(a) | (80,407) | (76,262) | (87,050) |
| Share of profit of a joint venture | 17 | 3,255 | 1,411 | — |
| Profit before taxation | 6 | 410,801 | 481,494 | 487,382 |
| Income tax | 7 | <u>(71,428)</u> | <u>(79,792)</u> | <u>(75,911)</u> |
| Profit for the year | | <u>339,373</u> | <u>401,702</u> | <u>411,471</u> |
| Attributable to: | | | | |
| Equity shareholders of the Company | | 339,373 | 401,559 | 409,603 |
| Non-controlling interest | | — | 143 | 1,868 |
| Profit for the year | | <u>339,373</u> | <u>401,702</u> | <u>411,471</u> |
| Earnings per share * | 11 | | | |
| Basic and diluted (HK\$) | | <u>265.6</u> | <u>314.2</u> | <u>320.5</u> |

* The calculation of earnings per share has not taken into account the proposed Capitalization Issue pursuant to the shareholders' resolution passed on June 14, 2019. The proposed Capitalization Issue has not become effective as of the date of this report and will only take place immediately prior to the completion of the Global Offering, details of which are set out in the section headed "Share Capital" included in the Prospectus.

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Note | 2016 | 2017 | 2018 |
|---|-------|-----------|----------|-----------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit for the year | | 339,373 | 401,702 | 411,471 |
| Other comprehensive income for the year (after tax adjustments) | 10 | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | | |
| Effect of remeasurement of defined benefit retirement plans obligation..... | 29(a) | (15,911) | 3,093 | (1,542) |
| Related tax..... | | 2,430 | (763) | 1,100 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | |
| Exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong Dollars ("HK\$") | | (151,415) | 249,600 | (155,423) |
| Other comprehensive income for the year | | (164,896) | 251,930 | (155,865) |
| Total comprehensive income for the year | | 174,477 | 653,632 | 255,606 |
| Attributable to: | | | | |
| Equity shareholders of the Company..... | | 174,477 | 653,462 | 254,178 |
| Non-controlling interest..... | | — | 170 | 1,428 |
| Total comprehensive income for the year | | 174,477 | 653,632 | 255,606 |

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | 2016 | 2017 | 2018 |
|---|-------|------------------|------------------|------------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Non-current assets | | | | |
| Property, plant and equipment | 12 | 2,298,621 | 2,638,904 | 2,761,648 |
| Prepayments for purchase of property, plant and equipment..... | | 82,767 | 46,081 | 69,449 |
| Intangible assets | 13 | 109,083 | 103,897 | 85,504 |
| Goodwill | 14 | 571,323 | 626,009 | 457,312 |
| Deferred expenses | 15 | 166,104 | 184,627 | 166,512 |
| Interest in a joint venture..... | 17 | 5,925 | — | — |
| Other financial asset..... | 18 | 2,471 | 2,645 | 2,283 |
| Deferred tax assets | 27(b) | 23,823 | 24,231 | 22,635 |
| | | <u>3,260,117</u> | <u>3,626,394</u> | <u>3,565,343</u> |
| Current assets | | | | |
| Inventories | 19 | 514,643 | 626,534 | 738,430 |
| Trade and bills receivables | 20 | 549,407 | 756,163 | 919,458 |
| Prepayments, deposits and other receivables.... | 21 | 88,698 | 75,489 | 101,779 |
| Taxation recoverable..... | 27(a) | 3,152 | 4,204 | 5,239 |
| Pledged deposits | 22(b) | 9,122 | 3,039 | 2,195 |
| Cash and cash equivalents | 22(a) | 182,250 | 242,322 | 235,543 |
| | | <u>1,347,272</u> | <u>1,707,751</u> | <u>2,002,644</u> |
| Current liabilities | | | | |
| Bank loans | 23 | 787,622 | 1,000,713 | 1,095,777 |
| Obligations under finance leases | 24 | 34,874 | 26,824 | 59,444 |
| Trade payables..... | 25 | 204,792 | 306,863 | 388,193 |
| Other payables and accruals..... | 26 | 244,490 | 313,867 | 309,960 |
| Taxation payable | 27(a) | 28,035 | 31,311 | 38,328 |
| | | <u>1,299,813</u> | <u>1,679,578</u> | <u>1,891,702</u> |
| Net current assets | | <u>47,459</u> | <u>28,173</u> | <u>110,942</u> |
| Total assets less current liabilities | | <u>3,307,576</u> | <u>3,654,567</u> | <u>3,676,285</u> |

The accompanying notes form part of the Historical Financial Information.

| | Note | 2016 | 2017 | 2018 |
|--|-------|------------------|------------------|------------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Non-current liabilities | | | | |
| Bank loans | 23 | 1,030,804 | 796,053 | 698,520 |
| Obligations under finance leases | 24 | 55,946 | 70,271 | 76,575 |
| Deferred income | 28 | 60,127 | 64,852 | 59,034 |
| Defined benefit retirement plans obligation..... | 29(a) | 61,179 | 65,970 | 60,977 |
| Deferred tax liabilities..... | 27(b) | 119,495 | 128,348 | 97,000 |
| | | <u>1,327,551</u> | <u>1,125,494</u> | <u>992,106</u> |
| NET ASSETS | | <u>1,980,025</u> | <u>2,529,073</u> | <u>2,684,179</u> |
| CAPITAL AND RESERVES | | | | |
| Share capital | 30 | 128 | 128 | 128 |
| Reserves | 31 | <u>1,979,897</u> | <u>2,515,359</u> | <u>2,669,037</u> |
| Total equity attributable to equity shareholders of the Company | | 1,980,025 | 2,515,487 | 2,669,165 |
| Non-controlling interest | | <u>—</u> | <u>13,586</u> | <u>15,014</u> |
| TOTAL EQUITY | | <u>1,980,025</u> | <u>2,529,073</u> | <u>2,684,179</u> |

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

| | Note | 2016 | 2017 | 2018 |
|--|--------------|----------------|----------------|----------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Non-current assets | | | | |
| Interest in subsidiaries..... | 16 | 567,072 | 648,712 | 582,287 |
| | | <u>567,072</u> | <u>648,712</u> | <u>582,287</u> |
| Current assets | | | | |
| Other receivables | 21 | — | 52 | 1,054 |
| Cash and cash equivalents | 22(a) | 51 | 47 | 211 |
| | | <u>51</u> | <u>99</u> | <u>1,265</u> |
| Current liabilities | | | | |
| Other payables | 26 | — | 4,212 | 6,766 |
| | | <u>—</u> | <u>4,212</u> | <u>6,766</u> |
| Net current assets/(liabilities) | | <u>51</u> | <u>(4,113)</u> | <u>(5,501)</u> |
| Total assets less current liabilities | | <u>567,123</u> | <u>644,599</u> | <u>576,786</u> |
| NET ASSETS | | <u>567,123</u> | <u>644,599</u> | <u>576,786</u> |
| CAPITAL AND RESERVES | | | | |
| Share capital | 30 | 128 | 128 | 128 |
| Reserves | 30(a), 31 | 566,995 | 644,471 | 576,658 |
| TOTAL EQUITY | | <u>567,123</u> | <u>644,599</u> | <u>576,786</u> |

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | | Attributable to equity shareholders of the Company | | | | | | | |
|---|---------------|--|-----------------|-----------------------|------------------|------------------|--------------------------|--------------|-----------|
| Note | Share capital | Share premium | Capital reserve | Statutory | | | Non-controlling interest | Total equity | |
| | | | | Share surplus reserve | Exchange reserve | Retained profits | | | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| | 128 | 543,673 | 1,110 | 119,355 | (117,131) | 1,308,413 | 1,855,548 | — | 1,855,548 |
| Balance at January 1, 2016 | | | | | | | | | |
| Changes in equity for 2016: | | | | | | | | | |
| Profit for the year | — | — | — | — | — | 339,373 | 339,373 | — | 339,373 |
| Other comprehensive income | — | — | — | — | (151,415) | (13,481) | (164,896) | — | (164,896) |
| Total comprehensive income | — | — | — | — | (151,415) | 325,892 | 174,477 | — | 174,477 |
| Appropriation of dividends | — | — | — | — | — | (50,000) | (50,000) | — | (50,000) |
| Appropriation of reserve | — | — | — | 16,568 | — | (16,568) | — | — | — |
| Balance at December 31, 2016 and January 1, 2017 | 128 | 543,673 | 1,110 | 135,923 | (268,546) | 1,567,737 | 1,980,025 | — | 1,980,025 |

The accompanying notes form part of the Historical Financial Information.

| Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---------------------------|---------------------------|-----------------------------|-----------------------------|-----------|-----------|------------------------------|------------------------------|--------------------------------------|--------------------------|
| Note | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Statutory | | | Retained profits HK\$'000 | Exchange reserve HK\$'000 | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
| | | | | surplus reserve HK\$'000 | reserve | reserves | | | | |
| | 128 | 543,673 | 1,110 | 135,923 | (268,546) | 1,567,737 | 1,980,025 | — | 1,980,025 | |
| Balance at December 31, 2016 and January 1, 2017 | | | | | | | | | | |
| Changes in equity for 2017: | | | | | | | | | | |
| | — | — | — | — | — | 401,559 | 401,559 | 143 | 401,702 | |
| Profit for the year | | | | | | | | | | |
| Other comprehensive income | 10 | — | — | — | 249,573 | 2,330 | 251,903 | 27 | 251,930 | |
| Total comprehensive income | | | | | | | | | | |
| Appropriation of dividends | 32 | — | — | — | — | (118,000) | (118,000) | — | (118,000) | |
| Appropriation of reserve | | | | | | (26,345) | — | — | — | |
| Acquisition of a subsidiary | 37 | — | — | — | — | — | — | 13,416 | 13,416 | |
| Balance at December 31, 2017 | 128 | 543,673 | 1,110 | 162,268 | (18,973) | 1,827,281 | 2,515,487 | 13,586 | 2,529,073 | |

The accompanying notes form part of the Historical Financial Information.

Attributable to equity shareholders of the Company

| | Note | Statutory | | | | | | | 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 | |
| Balance at December 31, 2017 and January 1, 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 2018: | | | | | | | | | | |
| Profit for the year | | — | — | — | — | — | 409,603 | 409,603 | 1,868 | 411,471 |
| Other comprehensive income | 10 | — | — | — | — | (154,983) | (442) | (155,425) | (440) | (155,865) |
| Total comprehensive income | | — | — | — | — | (154,983) | 409,161 | 254,178 | 1,428 | 255,606 |
| Appropriation of dividends | 32 | — | — | — | — | — | (100,500) | (100,500) | — | (100,500) |
| Appropriation of reserve | | — | — | — | 28,758 | — | (28,758) | — | — | — |
| Balance at December 31, 2018 | | 128 | 543,673 | 1,110 | 191,026 | (173,956) | 2,107,184 | 2,669,165 | 15,014 | 2,684,179 |

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

| | Note | 2016 | 2017 | 2018 |
|---|-------|------------------|------------------|------------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Operating activities | | | | |
| Cash generated from operations | 22(c) | 692,231 | 837,243 | 870,544 |
| Tax paid | | <u>(58,758)</u> | <u>(85,297)</u> | <u>(92,959)</u> |
| Net cash generated from operating activities | | <u>633,473</u> | <u>751,946</u> | <u>777,585</u> |
| Investing activities | | | | |
| Payment for the acquisition of property, plant and equipment..... | | (353,437) | (330,864) | (490,846) |
| Proceeds from disposal of property, plant and equipment | | 46,776 | 5,375 | 4,354 |
| Payment for deferred expenses | | (80,709) | (77,707) | (76,055) |
| Acquisition of subsidiaries, net..... | | — | 2,771 | (26,764) |
| Interest received..... | | <u>743</u> | <u>2,130</u> | <u>839</u> |
| Net cash used in investing activities | | <u>(386,627)</u> | <u>(398,295)</u> | <u>(588,472)</u> |

The accompanying notes form part of the Historical Financial Information.

| | Note | 2016 | 2017 | 2018 |
|---|-------|------------------|------------------|------------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Financing activities | | | | |
| Proceeds from bank loans | | 1,606,245 | 847,516 | 1,266,052 |
| Repayment of bank loans | | (1,716,017) | (905,438) | (1,234,434) |
| Payment of finance leases | | (43,892) | (41,324) | (34,244) |
| Interest paid | | (92,326) | (83,040) | (84,214) |
| Dividends paid to equity shareholders of the Company | | (50,000) | (118,000) | (100,500) |
| Net cash used in financing activities | | <u>(295,990)</u> | <u>(300,286)</u> | <u>(187,340)</u> |
| Net (decrease)/increase in cash and cash equivalents | | (49,144) | 53,365 | 1,773 |
| Cash and cash equivalents at the beginning of the year | | 239,417 | 182,250 | 242,322 |
| Effect of foreign exchange rate changes | | <u>(8,023)</u> | <u>6,707</u> | <u>(8,552)</u> |
| Cash and cash equivalents at the end of the year | 22(a) | <u>182,250</u> | <u>242,322</u> | <u>235,543</u> |

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Impro Precision Industries Limited (the "Company") was incorporated in Cayman Islands on January 8, 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, "the Group") are principally engaged in the development and production of a broad range of casting products and precision machining parts and provision of surface treatment services.

As at the date of this report, no audited statutory financial statements have been prepared for the Company, Impro Holdings Limited, Impro Industries USA, Inc., Impro Germany GmbH, Impro Industries Mexico, S. de R.L. de C.V. and Impro Aerospace Mexico, S. de R.L. de C.V. as they either have not carried on any business since the date of incorporation or are investment holding companies or not subject to statutory audit requirements under the relevant rules and regulations in the jurisdictions of incorporation.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies:

| Company name | Place and date of incorporation/ establishment | Particulars of issued and paid-in capital | Attributable equity interest held by the Company | | Principal activities | Name of statutory auditor |
|--|--|---|--|------------|---|---------------------------|
| | | | Directly | Indirectly | | |
| Impro Holdings Limited (Note (b))..... | The British Virgin Islands December 22, 2016 | United States Dollar ("US\$") 128,206 | 100% | — | Investment holding | Not applicable |
| Impro International Limited (Note (i))..... | Hong Kong June 16, 2000 | HK\$1,000,000 | — | 100% | Investment holding and sales of investment casting, sand casting and precision machining products and provision of corporate and business development and customer relationship management functions | KPMG |

APPENDIX I
ACCOUNTANTS' REPORT

| Company name | Place and date of incorporation/ establishment | Particulars of issued and paid-in capital | Attributable equity interest held by the Company | | Principal activities | Name of statutory auditor |
|--|--|---|--|------------|---|---|
| | | | Directly | Indirectly | | |
| Impro Investment (Hong Kong) Limited (Note (i)) . | Hong Kong March 22, 2012 | HK\$100 | — | 100% | Investment holding | KPMG |
| Impro (China) Limited (Note (a) and (j)) (鷹普 (中國) 有限公司) ... | The People's Republic of China ("PRC") May 12, 1995 | US\$61,800,000 | — | 100% | Manufacturing investment casting, sand casting and precision machining products | Jiangsu Gongqin Certified Public Accountants Co., Ltd. (江蘇公勤會計師事務所有限公司) |
| Wuxi Impro-Bees Precision Bearing Co., Ltd. (Note (a) and (j)) (無錫鷹貝精密軸承有限公司) | The PRC June 15, 2006 | US\$15,800,000 | — | 100% | Manufacturing precision machining products | Wuxi Dazhong Certified Public Accountants Co., Ltd. (無錫大眾會計師事務所有限公司) |
| Impro Aerospace Components (Wuxi) Co., Ltd. (Note (a) and (j)) (鷹普航空零部件(無錫)有限公司) | The PRC August 9, 2002 | US\$20,000,000 | — | 100% | Manufacturing investment casting and precision machining products | Jiangsu Gongqin Certified Public Accountants Co., Ltd. (江蘇公勤會計師事務所有限公司) |
| Wuxi Impro-Bees Plating and Painting Co., Ltd. (Note (a) and (j)) (無錫鷹貝電化學工程有限公司). | The PRC August 31, 2004 | US\$1,000,000 | — | 100% | Providing surface treatment, including plating, anodizing, painting and coating | Wuxi Dazhong Certified Public Accountants Co., Ltd. (無錫大眾會計師事務所有限公司) |
| Impro Industries (Yixing) Co., Ltd. (Note (a) and (j)) (鷹普機械(宜興)有限公司) | The PRC April 19, 2006 | US\$43,800,095 | — | 100% | Manufacturing investment casting and sand casting products | Jiangsu Gongqin Certified Public Accountants Co., Ltd. (江蘇公勤會計師事務所有限公司) |
| Impro Industrial (Taizhou) Co., Ltd. (Note (a) and (j)) (鷹普機械 (泰州) 有限公司) | The PRC June 30, 2006 | US\$6,500,000 | — | 100% | Manufacturing sand casting products | Taizhou Xingrui Certified Public Accountants Co., Ltd. (泰州興瑞會計師事務所有限公司) |
| Nantong Shenhai Science and Industrial Technology Co., Ltd. (Note (a) and (j)) (南通申海工業科技有限公司) | The PRC October 12, 2001 | Chinese Yuan ("RMB")10,430,000 | — | 100% | Providing surface treatment, including plating, anodizing, painting and coating | Nantong Dingjia Certified Public Accountants Co., Ltd. (南通訂佳會計師事務所有限公司) |
| Haimen Xinhai Special Plating Company Limited (Note (a) and (j)) (海門鑫海特種鍍飾有限公司) | The PRC January 14, 2005 | US\$3,500,000 | — | 100% | Providing surface treatment, including plating, anodizing, painting and coating | Nantong Dingjia Certified Public Accountants Co., Ltd. (南通訂佳會計師事務所有限公司) |

APPENDIX I
ACCOUNTANTS' REPORT

| Company name | Place and date of incorporation/ establishment | Particulars of issued and paid-in capital | Attributable equity interest held by the Company | | Principal activities | Name of statutory auditor |
|--|--|---|--|------------|--|--|
| | | | Directly | Indirectly | | |
| Impress Impeller (Yixing) Co., Ltd. (Note (a) and (g)) (鷹普羅斯葉輪 (宜興) 有限公司) | The PRC February 12, 2011 | US\$2,969,696.97 | — | 67% | Manufacturing machining parts and impellers | Jiangsu Gongqin Certified Public Accountants Co., Ltd. (江蘇公勤會計師事務所有限公司) |
| Impro Industries USA, Inc. .. | United States of America ("United States ") November 25, 1998 | US\$500,000 | — | 100% | Managing logistic centre, warehouses, sales of investment casting, sanding casting and precision machining products and provision of customer maintenance service | Not applicable |
| Impro Europe SARL (Note (k) and (n)) | Luxembourg May 29, 2012 | Euro ("EUR") 20,000 | — | 100% | Investment holding, managing logistic centre, sales of investment casting, sand casting and precision machining products and provision of customer maintenance service | KPMG Luxembourg Société Cooperative |
| Impro Germany GmbH | Germany May 2, 2003 | EUR250,000 | — | 100% | Provision of customer maintenance service | Not applicable |
| BFG Feinguss Niederrhein GmbH (Note (l)) | Germany September 18, 2001 | EUR490,000 | — | 100% | Manufacturing investment casting products | KPMG AG Wirtschaftsprüfungsgesellschaft/ Kieffer Stübben Partner |
| BFG Feinguss Hessen GmbH (Note (l)) | Germany July 8, 2009 | EUR25,000 | — | 100% | Manufacturing investment casting products | KPMG AG Wirtschaftsprüfungsgesellschaft/ Kieffer Stübben Partner |
| BFG Czech s.r.o. (Note (m)) | Czech Republic September 19, 2007 | Czech Koruna ("CZK") 1,450,000 | — | 100% | Manufacturing investment casting products | ČBR Audit Union, s r.o. |
| Cengiz Makina Sanayi ve Ticaret Anonim Sirketi (Note (h)) | Turkey January 27, 1995 | Turkish Lira ("TL") 7,005,000 | — | 100% | Manufacturing precision machining products | KPMG Bagimsiz Denetim ve SMMM A.S. |
| Impro Industries Mexico, S. de R.L. de C.V. (Note (c)) | Mexico March 18, 2016 | Mexican Peso ("MEX\$") 160,000,000 | — | 100% | Manufacturing precision machining products | Not applicable |

| Company name | Place and date of incorporation/ establishment | Particulars of issued and paid-in capital | Attributable equity interest held by the Company | | Principal activities | Name of statutory auditor |
|--|--|---|--|------------|---|---|
| | | | Directly | Indirectly | | |
| Impro Aerospace Mexico, S. de R.L. de C.V.(Note (d))..... | Mexico February 17, 2017 | MEX\$21,141,590 | — | 100% | Dormant | Not applicable |
| Wuxi Impro Metal-Tech Co., Ltd. (Note (a) and (e)) (無錫鷹普精密鑄造有限公司). | The PRC March 31, 2004 | US\$5,000,000 | — | — | Manufacturing investment casting products | Jiangsu Gongqin Certified Public Accountants Co., Ltd. (江蘇公勤會計師事務所有限公司) |
| Nantong Shenhai Investment Co., Ltd. (Note (a) and (f)) (南通市申海投資有限公司). | The PRC February 5, 2013 | RMB10,000,000 | — | — | Providing surface treatment, including plating, anodizing, painting and coating | Nantong Dingjia Certified Public Accountants Co., Ltd. (南通玳佳會計師事務所有限公司) |

Notes:

- (a) These entities are enterprises established in the PRC. The official names of these entities are in Chinese. The English translation of the company names is for identification purpose only.
- (b) Impro Holdings Limited was established by the Company on December 22, 2016. There was no statutory requirement for the financial statements of this company to be audited during the Relevant Periods.
- (c) Impro Industries Mexico, S. de R.L. de C.V. was established by Impro International Limited and Impro Investment (Hong Kong) Limited on March 29, 2016. There was no statutory requirement for the financial statements of this company to be audited during the Relevant Periods.
- (d) Impro Aerospace Mexico, S. de R.L. de C.V. was established by Impro International Limited and Impro Investment (Hong Kong) Limited on February 17, 2017. There was no statutory requirement for the financial statements of this company to be audited during the Relevant Periods.
- (e) Wuxi Impro Metal-Tech Co., Ltd. (無錫鷹普精密鑄造有限公司) was merged by another subsidiary of the Group, Impro (China) Limited (鷹普(中國)有限公司) on May 23, 2016. Therefore, no statutory financial statements of this company were prepared during the Relevant Periods.
- (f) Nantong Shenhai Investment Co., Ltd. (南通市申海投資有限公司) completed its deregistration on November 30, 2017. Therefore, no statutory financial statements of this company were prepared for the years ended December 31, 2017 and 2018. The statutory financial statements of this company for the year ended December 31, 2016 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC.
- (g) Impro Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司) ("Impro Impeller"), a former joint venture of the Group in the PRC, was acquired by Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司) on August 23, 2017. The statutory financial statements of this company for the years ended December 31, 2017 and 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC.
- (h) The statutory financial statements of this company for the years ended December 31, 2016, 2017 and 2018 were prepared in accordance with the Turkey's accounting standards issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey.
- (i) The statutory financial statements of these companies for the years ended December 31, 2016, 2017 and 2018 were prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA.
- (j) The statutory financial statements of these companies for the years ended December 31, 2016, 2017 and 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC.
- (k) The statutory financial statements of this company for the years ended December 31, 2016 and 2017 were prepared in accordance with Luxembourg GAAP issued by the Luxembourg Accounting Standards Board.

- (l) The statutory financial statements of these companies for the years ended December 31, 2016, 2017 and 2018 were prepared in accordance with the German GAAP issued by the Accounting Standards Committee of Germany.
- (m) The statutory financial statements of these companies for the years ended December 31, 2016, 2017 and 2018 were prepared in accordance with the Czech commercial code and the regulation on financial reporting.
- (n) As at the date of this report, the audit of this company's statutory financial statements for the year ended December 31, 2018 have not been completed.

All companies now comprising the Group have adopted December 31, as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended December 31, 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended December 31, 2018 are set out in Note 39.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of measurement*

The Historical Financial Information is presented in HK\$, rounded to the nearest thousand, unless otherwise indicated.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies as set out below.

(b) *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) *Subsidiaries and non-controlling interest*

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

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

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

Non-controlling interest are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interest and the equity shareholders of the Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

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

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

(d) ***Joint ventures***

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the Historical Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the

investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(l)(ii)). Any the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the consolidated statements of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statements of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealized profits and losses resulting from transactions between the Group and the joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

(e) **Goodwill**

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(l)(ii)).

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

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

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

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 36(e). These investments are subsequently accounted for as follows, depending on their classification.

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

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

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(v)(iii)).
- fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(ii) ***Equity investments***

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the

investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(v)(v).

(g) ***Derivative financial instruments***

Derivative financial instruments are recognized at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on re-measurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) ***Property, plant and equipment***

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

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

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

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

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

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

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

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

No depreciation is provided in respect of construction in progress.

(i) ***Intangible assets (other than goodwill)***

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

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

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

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

Both the period and method of amortization are reviewed annually.

(j) ***Deferred expenses***

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

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

Both the period and method of amortization are reviewed annually.

(k) ***Leased assets***

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(l)(ii)). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

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

(i) *Credit losses from financial instruments*

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

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

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

Significant increases in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(v)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

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

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

- property, plant and equipment;
- intangible assets;
- goodwill;
- deferred expenses;
- interest in a joint venture; and
- investment in subsidiaries in the Company's statement of financial position.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(m) ***Inventories***

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labour and appropriate share of overheads based on normal operating capacity.

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

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

(n) ***Contract liabilities***

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

(o) ***Trade and other receivables***

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

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(l)(i)).

(p) ***Interest-bearing borrowings***

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(x)).

(q) ***Trade and other payables***

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

(r) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(l)(i).

(s) ***Employee benefits***

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

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

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

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

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

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

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

(t) ***Income tax***

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

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

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

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

temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

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

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(u) Provisions and contingent liabilities

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

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

(v) Revenue and other income

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

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

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

(i) *Sale of goods*

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

(ii) *Rental income from operating leases*

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

(iii) *Interest income*

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

(iv) *Government grants*

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

(v) *Dividends*

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

(w) Translation of foreign currencies

Items included in the Historical Financial Information of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (“functional currency”). The functional currency of the Company is HK\$. The functional currency of Group’s subsidiaries incorporated in the PRC is RMB. The functional currencies of the Group’s other subsidiaries incorporated outside the PRC are listed below.

| Name of company | Functional currency |
|---|---------------------|
| Impro Holdings Limited | HK\$ |
| Impro International Limited..... | HK\$ |
| Impro Industries USA, Inc. | US\$ |
| Impro Germany GmbH | EUR |
| Impro Europe SARL | EUR |
| Impro Investment (Hong Kong) Limited..... | EUR |
| BFG Feinguss Niederrhein GmbH..... | EUR |
| BFG Feinguss Hessen GmbH..... | EUR |
| BFG Czech s.r.o. | CZK |
| Cengiz Makina Sanayi ve Ticaret Anonim Sirketi..... | EUR |
| Impro Industries Mexico, S. de R.L. de C.V. | MEX\$ |
| Impro Aerospace Mexico, S. de R.L. de C.V. | MEX\$ |

The Historical Financial Information is presented in HK\$ (“presentation currency”).

Foreign currency transactions during the years ended December 31, 2016, 2017 and 2018 are translated at the foreign exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognized in profit or loss.

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

The results of operations with functional currency other than HK\$ are translated into HK\$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Consolidated statements of financial position items are translated into HK\$ at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(x) ***Borrowing costs***

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

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

(y) ***Related parties***

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(z) ***Segment reporting***

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty

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

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

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

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

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

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

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

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

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

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

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

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

(vi) ***Income tax***

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

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

(vii) ***Contingent consideration assumed in business combinations***

Certain of the Group's business combinations involved post-acquisition performance-based contingent consideration. Fair values of contingent consideration for acquisitions, as of their respective acquisition dates, form part of the consideration transferred in exchange for the acquired business. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired business and significant judgement on time value of money. Contingent consideration shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the profit or loss.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

(i) Disaggregation of revenue

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

| | Year ended December 31, | | |
|---------------------------|-------------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Investment casting | 1,151,868 | 1,333,139 | 1,581,166 |
| Precision machining | 713,759 | 953,087 | 1,215,210 |
| Sand casting..... | 325,745 | 429,858 | 601,842 |
| Surface treatment | 355,842 | 333,059 | 350,895 |
| | <u>2,547,214</u> | <u>3,049,143</u> | <u>3,749,113</u> |

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

The Group had transactions with one, one and two customer exceeding 10% individually of its total revenue for the years ended December 31, 2016, 2017 and 2018, respectively.

The total revenue from the sales of investment casting, precision machining and sand casting products to these customers amounted to HK\$316,483,000, HK\$461,858,000 and HK\$981,587,000 for the years ended December 31, 2016, 2017 and 2018, respectively and arose in all four geographical regions in which the investment casting, precision machining and sand casting segments are active. Details of concentrations of credit risk arising from the customers are set out in Note 36(a).

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

As at December 31, 2016, 2017 and 2018, the Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

(b) Segment reporting

The Group manages its businesses by divisions, which are organized by business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No individually mentioned operating segments have been aggregated to form the following reportable segments.

- Investment casting: It is a metal forming process that casts molten metal into a ceramic mold produced by surrounding a wax pattern. The main products are 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.
- 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 interest in a joint venture, 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.

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 Relevant Periods is set out below:

| | Year ended December 31, 2016 | | | | |
|---|------------------------------|---------------------|----------------|-------------------|------------------|
| | Investment casting | Precision machining | Sand casting | Surface treatment | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers..... | 1,151,868 | 713,759 | 325,745 | 355,842 | 2,547,214 |
| Inter-segment revenue | — | — | — | 14,128 | 14,128 |
| Reportable segment revenue.... | <u>1,151,868</u> | <u>713,759</u> | <u>325,745</u> | <u>369,970</u> | <u>2,561,342</u> |
| Gross profit from external customers..... | 353,260 | 194,275 | 103,252 | 118,550 | 769,337 |
| Inter-segment gross profit | — | — | — | 2,410 | 2,410 |
| Reportable segment gross profit | <u>353,260</u> | <u>194,275</u> | <u>103,252</u> | <u>120,960</u> | <u>771,747</u> |
| Depreciation and amortization .. | <u>93,204</u> | <u>124,966</u> | <u>71,295</u> | <u>67,218</u> | <u>356,683</u> |
| Reportable segment profit | <u>283,172</u> | <u>213,023</u> | <u>129,054</u> | <u>139,660</u> | <u>764,909</u> |
| Reportable segment assets | <u>1,450,403</u> | <u>1,208,392</u> | <u>748,518</u> | <u>979,937</u> | <u>4,387,250</u> |

| | Year ended December 31, 2017 | | | | |
|---|------------------------------|---------------------|----------------|-------------------|------------------|
| | Investment casting | Precision machining | Sand casting | Surface treatment | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers..... | 1,333,139 | 953,087 | 429,858 | 333,059 | 3,049,143 |
| Inter-segment revenue | — | — | — | 17,151 | 17,151 |
| Reportable segment revenue.... | <u>1,333,139</u> | <u>953,087</u> | <u>429,858</u> | <u>350,210</u> | <u>3,066,294</u> |
| Gross profit from external customers..... | 433,716 | 297,338 | 148,831 | 97,987 | 977,872 |
| Inter-segment gross profit | — | — | — | 5,652 | 5,652 |
| Reportable segment gross profit | <u>433,716</u> | <u>297,338</u> | <u>148,831</u> | <u>103,639</u> | <u>983,524</u> |
| Depreciation and amortization .. | <u>114,573</u> | <u>115,515</u> | <u>77,529</u> | <u>54,153</u> | <u>361,770</u> |
| Reportable segment profit | <u>383,080</u> | <u>292,402</u> | <u>174,740</u> | <u>114,613</u> | <u>964,835</u> |
| Reportable segment assets | <u>1,780,128</u> | <u>1,491,878</u> | <u>735,705</u> | <u>1,053,428</u> | <u>5,061,139</u> |
| | Year ended December 31, 2018 | | | | |
| | Investment casting | Precision machining | Sand casting | Surface treatment | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers..... | 1,581,166 | 1,215,210 | 601,842 | 350,895 | 3,749,113 |
| Inter-segment revenue | — | — | — | 27,516 | 27,516 |
| Reportable segment revenue.... | <u>1,581,166</u> | <u>1,215,210</u> | <u>601,842</u> | <u>378,411</u> | <u>3,776,629</u> |
| Gross profit from external customers..... | 516,341 | 387,803 | 198,703 | 104,920 | 1,207,767 |
| Inter-segment gross profit | — | — | — | 11,799 | 11,799 |
| Reportable segment gross profit | <u>516,341</u> | <u>387,803</u> | <u>198,703</u> | <u>116,719</u> | <u>1,219,566</u> |
| Depreciation and amortization .. | <u>141,140</u> | <u>113,179</u> | <u>75,664</u> | <u>48,232</u> | <u>378,215</u> |
| Reportable segment profit | <u>466,052</u> | <u>359,330</u> | <u>205,350</u> | <u>122,841</u> | <u>1,153,573</u> |
| Reportable segment assets | <u>1,895,432</u> | <u>1,784,845</u> | <u>807,277</u> | <u>819,899</u> | <u>5,307,453</u> |

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

| | Year ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | | | |
| Reportable segment revenue..... | 2,561,342 | 3,066,294 | 3,776,629 |
| Elimination of inter-segment revenue..... | (14,128) | (17,151) | (27,516) |
| Consolidated revenue | <u>2,547,214</u> | <u>3,049,143</u> | <u>3,749,113</u> |
| Gross profit | | | |
| Reportable segment gross profit..... | 771,747 | 983,524 | 1,219,566 |
| Elimination of inter-segment gross profit..... | (2,410) | (5,652) | (11,799) |
| Consolidated gross profit | <u>769,337</u> | <u>977,872</u> | <u>1,207,767</u> |
| Profit | | | |
| Reportable segment profit | 764,909 | 964,835 | 1,153,573 |
| Elimination of inter-segment profit | (2,410) | (5,652) | (11,799) |
| Reportable segment profit derived from | | | |
| Group's external customers..... | 762,499 | 959,183 | 1,141,774 |
| Other revenue..... | 147,546 | 16,903 | 36,862 |
| Other net loss | (34,103) | (32,022) | (160,203) |
| Share of profit of a joint venture..... | 3,255 | 1,411 | — |
| Listing expenses | — | (4,330) | (48,000) |
| Unallocated head office and corporate expenses | (31,306) | (21,619) | (17,786) |
| Consolidated profit before interest, taxes, depreciation and amortization..... | 847,891 | 919,526 | 952,647 |
| Net finance costs | (80,407) | (76,262) | (87,050) |
| Depreciation and amortization | (356,683) | (361,770) | (378,215) |
| Consolidated profit before taxation | <u>410,801</u> | <u>481,494</u> | <u>487,382</u> |

| | As at December 31, | | |
|--|--------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | |
| Reportable segment assets | 4,387,250 | 5,061,139 | 5,307,453 |
| Elimination of inter-segment receivables..... | (12,273) | (5,391) | (7,442) |
| | <u>4,374,977</u> | <u>5,055,748</u> | <u>5,300,011</u> |
| Interest in a joint venture | 5,925 | — | — |
| Other financial asset | 2,471 | 2,645 | 2,283 |
| Deferred tax assets | 23,823 | 24,231 | 22,635 |
| Pledged deposits | 9,122 | 3,039 | 2,195 |
| Cash and cash equivalents | 182,250 | 242,322 | 235,543 |
| Unallocated head office and corporate assets..... | <u>8,821</u> | <u>6,160</u> | <u>5,320</u> |
| Consolidated total assets | <u>4,607,389</u> | <u>5,334,145</u> | <u>5,567,987</u> |

(iii) *Geographical information*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, prepayments for purchase of property, plant and equipment, intangible assets, goodwill, deferred expenses, 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

| | Year ended December 31, | | |
|-------------------------------|-------------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| United States | 1,046,036 | 1,253,268 | 1,575,072 |
| Europe..... | 880,313 | 1,049,787 | 1,222,419 |
| The PRC..... | 561,113 | 668,722 | 859,470 |
| Asia other than the PRC | <u>59,752</u> | <u>77,366</u> | <u>92,152</u> |
| | <u>2,547,214</u> | <u>3,049,143</u> | <u>3,749,113</u> |

Specified non-current assets

| | At December 31, | | |
|---------------------|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| United States | 2,053 | 2,808 | 2,289 |
| Europe..... | 733,880 | 825,167 | 898,643 |
| The PRC | 2,487,202 | 2,745,916 | 2,582,006 |
| Mexico..... | 13,159 | 28,272 | 59,770 |
| | <u>3,236,294</u> | <u>3,602,163</u> | <u>3,542,708</u> |

5 OTHER REVENUE AND OTHER NET LOSS

(a) *Other revenue*

| | Year ended December 31, | | |
|--------------------------------------|-------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Rental income (Note i) | 2,185 | 2,401 | 3,291 |
| Government subsidies (Note ii) | 141,587 | 12,248 | 30,128 |
| Others | 3,774 | 2,254 | 3,443 |
| | <u>147,546</u> | <u>16,903</u> | <u>36,862</u> |

Notes:

- (i) As at December 31, 2016, 2017 and 2018, the total minimum lease receivables under irrevocable operating leases agreements in the future amounted to HK\$2,657,000, HK\$788,000 and HK\$1,438,000, respectively.
- (ii) During the years ended December 31, 2016, 2017 and 2018, the Group received unconditional government subsidies of HK\$20,202,000, HK\$9,386,000 and HK\$27,189,000, respectively, as encouragement of their contribution in technology development, environment protection, contribution in local economy and timely completion of relocation.

During the years ended December 31, 2016, 2017 and 2018, the Group received conditional government subsidies of HK\$72,698,000, HK\$3,353,000 and HK\$ nil, respectively as subsidies for relocation and acquisition of machinery of the Group's PRC subsidiaries. During the years ended December 31, 2016, 2017 and 2018, the Group recognized such subsidies of HK\$118,906,000, HK\$ nil and HK\$ nil for relocation and HK\$2,479,000, HK\$2,862,000 and HK\$2,939,000 for acquisition of machinery, respectively in the profit or loss when related conditions were satisfied.

(b) *Other net loss*

| | Year ended December 31, | | |
|--|-------------------------|-----------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Expense incurred and loss on disposal of property, plant and equipment disposed for relocation | (55,996) | — | — |
| Net gain arising from other financial liabilities | 8,805 | — | — |
| Gain arising from business combination (Note 37) | — | 6,233 | — |
| Net exchange gain/(loss)..... | 13,667 | (36,070) | (17,859) |
| Net (loss)/gain on disposal of property, plant and equipment | (285) | (2,245) | 504 |
| Impairment loss of goodwill (Note 14)..... | — | — | (141,178) |
| Others | (294) | 60 | (1,670) |
| | <u>(34,103)</u> | <u>(32,022)</u> | <u>(160,203)</u> |

6 PROFIT BEFORE TAXATION

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

(a) *Net finance costs*

| | Year ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income on financial assets measured at amortized cost | (743) | (2,130) | (839) |
| Interest expenses on bank loans and obligations under finance leases | 89,168 | 81,653 | 91,724 |
| Less: borrowing costs capitalized as construction in progress (Note i) | (8,018) | (3,261) | (3,835) |
| | <u>81,150</u> | <u>78,392</u> | <u>87,889</u> |
| Net finance costs | <u>80,407</u> | <u>76,262</u> | <u>87,050</u> |

Note:

- (i) The borrowing costs for the years ended December 31, 2016, 2017 and 2018 have been capitalized at a rate ranging from 4.79% to 6.58%, 4.35% to 5.23% and 4.40% to 5.23% per annum, respectively.

(b) *Staff costs*

| | Year ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Salaries, wages and other benefits..... | 640,421 | 695,992 | 816,215 |
| Contributions to defined contribution retirement plans..... | 98,648 | 106,596 | 127,566 |
| Expenses recognized in respect of defined benefit retirement plans obligation (Note 29(a)) | 4,711 | 5,498 | 4,233 |
| | <u>743,780</u> | <u>808,086</u> | <u>948,014</u> |

(c) *Other items*

| | Year ended December 31, | | |
|---|-------------------------|--------------|--------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost of inventories recognized as expenses (Note i)..... | 1,777,877 | 2,071,271 | 2,541,346 |
| Depreciation of property, plant and equipment..... | 229,924 | 248,207 | 277,734 |
| Amortization of intangible assets..... | 66,119 | 42,498 | 14,461 |
| Amortization of deferred expenses | 60,640 | 71,065 | 86,020 |
| Research and development expenses..... | 56,787 | 78,975 | 101,818 |
| Operating lease charges | 11,810 | 12,604 | 13,230 |
| Impairment loss of goodwill | — | — | 141,178 |
| Provision for impairment loss on trade and other receivables | 15,906 | 10,699 | 20,722 |
| Provision for write-down of inventories | 1,076 | 8,797 | 2,868 |
| Listing expenses | — | 4,330 | 48,000 |
| Auditors' remuneration | <u>2,763</u> | <u>3,027</u> | <u>3,093</u> |

Note:

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

7 INCOME TAX

(a) *Income tax in the consolidated statements of profit or loss represents*

| | Year ended December 31, | | |
|---|-------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Current tax | | | |
| <i>PRC Corporate Income Tax</i> | | | |
| Provision for the year..... | 34,726 | 51,943 | 60,375 |
| Over-provision in respect of prior years..... | (17,579) | (5,127) | (4,274) |
| | <u>17,147</u> | <u>46,816</u> | <u>56,101</u> |
| <i>Hong Kong Profits Tax</i> | | | |
| Provision for the year..... | 25,290 | 11,346 | 31,738 |
| Over-provision in respect of prior years..... | (2,524) | (2,701) | (1,672) |
| | <u>22,766</u> | <u>8,645</u> | <u>30,066</u> |
| <i>Tax jurisdictions outside PRC and Hong Kong</i> | | | |
| Provision for the year..... | 22,336 | 30,143 | 13,680 |
| | <u>62,249</u> | <u>85,604</u> | <u>99,847</u> |
| Deferred tax | | | |
| Origination and reversal of temporary differences (Note 27(b))..... | 9,179 | (5,812) | (23,936) |
| Total income tax expense | <u>71,428</u> | <u>79,792</u> | <u>75,911</u> |

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiary in Hong Kong was liable to the Hong Kong Profits Tax at a rate of 16.5% during the years ended December 31, 2016, 2017 and 2018. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

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

According to the Administrative Measures for Determination of High Tech Enterprises (Guokefahuo [2008] No.172), Nantong Shenhai Science and Industrial Technology Co., Ltd. ("Shenhai Industrial") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2013 to 2015. Shenhai Industrial renewed the qualification in 2016 and was entitled to a preferential income tax of 15% from 2016 to 2018.

Impro (China) Limited obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2014 to 2016. Impro (China) Limited renewed the qualification in 2017 and was entitled to a preferential income tax of 15% from 2017 to 2019.

Wuxi Impro-Bees Precision Bearing Co., Ltd. and Impro Aerospace Components (Wuxi) Co., Ltd. obtained the qualification as high-tech enterprises and were entitled to a preferential income tax rate of 15% for the years from 2015 to 2017. Wuxi Impro-Bees Precision Bearing Co., Ltd. and Impro Aerospace Components (Wuxi) Co., Ltd. renewed the qualification in 2018 and were entitled to a preferential income tax rate of 15% from 2018 to 2020.

Impro Industries (Yixing) Co., Ltd. obtained the qualification as high-tech enterprises in 2016 and was entitled to a preferential income tax rate of 15% for the years from 2016 to 2018.

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

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

- (iv) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiary in the United States was liable to United States Corporation Income Tax at a rate of 39.2%, 39.1% and 27.5% in 2016, 2017 and 2018, respectively, comprising federal income tax at a rate determined by income ranges and state income tax at a rate ranging from 6% to 9.99% during the Relevant Periods.
- (v) Pursuant to the income tax rules and regulations of Germany, Impro Germany GmbH is liable to the German Corporate Tax at a rate of 29.6% during the Relevant Periods. BFG Feinguss Niederrhein GmbH and BFG Feinguss Hessen GmbH, which were acquired by the Group in 2013, are liable to the German Corporate Tax at a rate of 32.6% and 29.5% during the Relevant Periods, respectively.
- (vi) Pursuant to the income tax rules and regulations of Luxembourg, the Group's subsidiary in Luxembourg, which was incorporated in 2012, is liable to the Luxembourg Corporate Tax at a rate of 29.2%, 27.1% and 26% during the Relevant Periods.

(vii) Pursuant to the income tax rules and regulations of Czech, the Group's subsidiary in Czech, which was acquired by the Group in 2013, is liable to the Czech Corporate Tax at a rate of 19% during the Relevant Periods.

(viii) Pursuant to the income tax rules and regulations of Turkey, the Group's subsidiary in Turkey, which was acquired by the Group in 2014, is liable to the Turkey Corporate Tax at a rate of 20%, 20% and 22% for the years ended December 31, 2016, 2017 and 2018, respectively.

According to Turkey Corporate Income Tax Law, Cengiz Makina was entitled to investment tax incentives. Income arising from qualifying investments was subject to reduced Turkey Corporate Income Tax rate. In 2018, these investment tax incentives reduced the income tax expenses by HK\$36,574,000.

(ix) Pursuant to the income tax rules and regulations of Mexico, the Group's subsidiaries in Mexico, Impro Industries Mexico, S. de R.L. de C.V. and Impro Aerospace Mexico, S. de R.L. de C.V., which were established by the Group in 2016 and 2017, respectively, are liable to the Mexico Tax at a rate of 30% during the Relevant Periods.

(b) ***Reconciliation between tax expense and profit before taxation at applicable tax rates:***

| | Year ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit before taxation..... | <u>410,801</u> | <u>481,494</u> | <u>487,382</u> |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned..... | 102,933 | 119,442 | 110,293 |
| Tax effect of non-deductible expenses..... | 13,799 | 6,254 | 48,257 |
| Tax effect of non-taxable income..... | (6,477) | (6,114) | (7,172) |
| Tax effect of tax losses not recognized..... | 5,149 | 3,305 | 2,259 |
| Tax effect of previously unrecognized tax losses now recognized..... | (17) | (273) | — |
| Effect of PRC tax concessions obtained..... | (23,856) | (34,994) | (35,206) |
| Effect of Turkey tax concessions obtained.... | — | — | (36,574) |
| Over-provision in prior years..... | <u>(20,103)</u> | <u>(7,828)</u> | <u>(5,946)</u> |
| Actual tax expense..... | <u>71,428</u> | <u>79,792</u> | <u>75,911</u> |

8 DIRECTORS' REMUNERATION

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

| | Year ended December 31, 2016 | | | | |
|---|------------------------------|---|-----------------------|---------------------------------|----------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Executive directors | | | | | |
| Lu Ruibo | — | 3,537 | — | 168 | 3,705 |
| Wang Hui, Ina | — | 1,530 | — | 127 | 1,657 |
| Zhu Liwei | — | 1,114 | 301 | 88 | 1,503 |
| Yu Yuepeng | — | 1,114 | 174 | 88 | 1,376 |
| Cheng Daoguang (resigned on January 27, 2016) | — | 61 | — | 7 | 68 |
| Qin Letian (resigned on January 27, 2016) | — | 88 | — | 6 | 94 |
| Li Hankin, Michael (resigned on June 2, 2016) | — | 1,694 | — | 52 | 1,746 |
| Total | — | 9,138 | 475 | 536 | 10,149 |

| | Year ended December 31, 2017 | | | | |
|--|------------------------------|---|-----------------------|---------------------------------|----------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Executive directors | | | | | |
| Lu Ruibo | 240 | 2,934 | — | 186 | 3,360 |
| Wang Hui, Ina | 240 | 1,559 | — | 103 | 1,902 |
| Zhu Liwei | 240 | 1,102 | 507 | 92 | 1,941 |
| Yu Yuepeng | 240 | 1,102 | 161 | 92 | 1,595 |
| Wang Dong (appointed on December 29, 2017) | — | — | — | — | — |
| Total | 960 | 6,697 | 668 | 473 | 8,798 |

| | Year ended December 31, 2018 | | | | |
|---|------------------------------|---|-----------------------|---------------------------------|---------------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Executive directors | | | | | |
| Lu Ruibo | 300 | 2,994 | — | 204 | 3,498 |
| Wang Hui, Ina | 300 | 1,986 | — | 95 | 2,381 |
| Zhu Liwei | 299 | 1,138 | 470 | 102 | 2,009 |
| Yu Yuepeng | 299 | 1,138 | 59 | 102 | 1,598 |
| Wang Dong | 299 | 711 | 415 | 102 | 1,527 |
| Yu Kwok Kuen Harry (appointed on June 15, 2018 and resigned on December 31, 2018)..... | 150 | — | — | — | 150 |
| Yen Gordon (appointed on June 15, 2018 and resigned on December 31, 2018) | 150 | — | — | — | 150 |
| Lee Siu Ming (appointed on June 15, 2018 and resigned on December 31, 2018) | 150 | — | — | — | 150 |
| Total | 1,947 | 7,967 | 944 | 605 | 11,463 |

There were no amounts paid during the Relevant Periods to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three, two and three directors during the years ended December 31, 2016, 2017 and 2018, respectively, whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the paid amount to remaining individuals of the Group are as follows:

| | Year ended December 31, | | |
|---|-------------------------|--------------|--------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 4,387 | 7,483 | 4,730 |
| Discretionary bonuses | 780 | 939 | 126 |
| Retirement scheme contributions | 143 | 192 | 112 |
| | <u>5,310</u> | <u>8,614</u> | <u>4,968</u> |

| | Year ended December 31, | | |
|-------------------------------------|-------------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 |
| | Number of individuals | Number of individuals | Number of individuals |
| HK\$ nil to HK\$1,000,000 | — | — | — |
| HK\$1,000,001 to HK\$2,000,000..... | — | — | — |
| HK\$2,000,001 to HK\$3,000,000..... | 2 | 2 | 2 |
| HK\$3,000,001 to HK\$4,000,000..... | — | 1 | — |

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

| | Remeasurement of defined benefit retirement plans obligation | Exchange differences on translation of financial statements | Total |
|--------------------------------------|--|---|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| For the year ended December 31, 2016 | | | |
| Before-tax amount..... | (15,911) | (151,415) | (167,326) |
| Tax benefit..... | 2,430 | — | 2,430 |
| Net-of-tax amount | <u>(13,481)</u> | <u>(151,415)</u> | <u>(164,896)</u> |
| For the year ended December 31, 2017 | | | |
| Before-tax amount..... | 3,093 | 249,600 | 252,693 |
| Tax expense | (763) | — | (763) |
| Net-of-tax amount | <u>2,330</u> | <u>249,600</u> | <u>251,930</u> |
| For the year ended December 31, 2018 | | | |
| Before-tax amount..... | (1,542) | (155,423) | (156,965) |
| Tax expense | 1,100 | — | 1,100 |
| Net-of-tax amount | <u>(442)</u> | <u>(155,423)</u> | <u>(155,865)</u> |

11 EARNINGS PER SHARE**(a) *Basic earnings per share***

For the years ended December 31, 2016, 2017 and 2018, the calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$339,373,000, HK\$401,559,000 and HK\$409,603,000, respectively, and the weighted average of 1,277,912, 1,277,912 and 1,277,912 ordinary shares in issue, respectively, during the periods.

Pursuant to the shareholder's resolutions passed on June 14, 2019, the directors of the Company are authorized to allot and issue a total of 1,498,722,088 ordinary shares credited as fully paid at par to the existing shareholders of the Company in proportion to their respective shareholdings by way of capitalization of the sum of HK\$149,872,208.8 standing to the credit of the share premium of the Company.

The calculation of earnings per share has not taken into account the proposed Capitalization Issue pursuant to the shareholders' resolution passed on June 14, 2019. The proposed Capitalization Issue has not become effective as of the date of this report and will only take place immediately prior to the completion of the Global Offering, details of which are set out in the section headed "Share Capital" included in the Prospectus. See Note 30(b) for more information on the Capitalization Issue.

(b) *Diluted earnings per share*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share is the same as basic earnings per share for the Relevant Periods as there were no potentially dilutive ordinary shares.

12 PROPERTY, PLANT AND EQUIPMENT

| | Freehold land | Leasehold Land (Note (i)) | Properties held for own use (Note (i)) | Machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|------------------|---------------------------------|---|-----------|--|-------------------|-----------------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | | | | | | |
| At January 1, 2016... | 45,488 | 114,949 | 875,127 | 1,622,971 | 208,568 | 31,760 | 241,801 | 3,140,664 |
| Additions..... | 40,392 | — | 6,956 | 162,367 | 21,663 | 7,370 | 203,118 | 441,866 |
| Transfers | — | — | 115,976 | 139,928 | 7,244 | 109 | (263,257) | — |
| Disposals | — | (3,623) | (35,695) | (32,754) | (22,705) | (7,956) | — | (102,733) |
| Exchange adjustment..... | (3,528) | (7,141) | (57,604) | (107,386) | (12,702) | (1,831) | (12,780) | (202,972) |
| At December 31, 2016 and January 1, 2017..... | 82,352 | 104,185 | 904,760 | 1,785,126 | 202,068 | 29,452 | 168,882 | 3,276,825 |
| Additions..... | — | — | — | 73,333 | 27,397 | 1,764 | 299,647 | 402,141 |
| Acquisition through business combination (Note 37) | — | — | — | 5,070 | 150 | 8 | 258 | 5,486 |
| Transfers | — | — | 153,521 | 201,106 | 8,722 | — | (363,349) | — |
| Disposals | — | — | — | (16,574) | (2,245) | (3,355) | — | (22,174) |
| Exchange adjustment..... | 11,647 | 7,458 | 73,002 | 154,472 | 15,228 | 1,947 | 12,035 | 275,789 |
| At December 31, 2017 and January 1, 2018..... | 93,999 | 111,643 | 1,131,283 | 2,202,533 | 251,320 | 29,816 | 117,473 | 3,938,067 |
| Additions..... | — | — | 2,484 | 172,142 | 45,053 | 596 | 324,038 | 544,313 |
| Transfers | — | — | — | 211,767 | 5,331 | 193 | (217,291) | — |
| Disposals | — | — | — | (11,227) | (6,358) | (1,393) | — | (18,978) |
| Exchange adjustment..... | (3,815) | (5,233) | (51,744) | (125,980) | (12,466) | (1,307) | (8,533) | (209,078) |
| At December 31, 2018..... | 90,184 | 106,410 | 1,082,023 | 2,449,235 | 282,880 | 27,905 | 215,687 | 4,254,324 |

| | Freehold land | Leasehold Land (Note (i)) | Properties held for own use (Note (i)) | Machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|------------------|---------------------------------|---|-----------|--|-------------------|-----------------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Accumulated depreciation: | | | | | | | | |
| At January 1, 2016... | — | 12,379 | 128,776 | 581,479 | 123,912 | 21,280 | — | 867,826 |
| Charge for the year.. | — | 2,410 | 31,166 | 161,894 | 31,109 | 3,345 | — | 229,924 |
| Written back on disposals | — | (1,269) | (11,975) | (21,795) | (17,108) | (7,231) | — | (59,378) |
| Exchange adjustment..... | — | (833) | (8,839) | (41,440) | (8,000) | (1,056) | — | (60,168) |
| At December 31, 2016 and January 1, 2017..... | — | 12,687 | 139,128 | 680,138 | 129,913 | 16,338 | — | 978,204 |
| Charge for the year.. | — | 2,259 | 37,959 | 175,584 | 29,482 | 2,923 | — | 248,207 |
| Written back on disposals | — | — | — | (9,235) | (2,148) | (3,171) | — | (14,554) |
| Exchange adjustment..... | — | 946 | 11,884 | 63,404 | 9,994 | 1,078 | — | 87,306 |
| At December 31, 2017 and January 1, 2018..... | — | 15,892 | 188,971 | 909,891 | 167,241 | 17,168 | — | 1,299,163 |
| Charge for the year.. | — | 2,294 | 35,858 | 203,797 | 32,471 | 3,314 | — | 277,734 |
| Written back on disposals | — | — | — | (8,825) | (5,031) | (1,272) | — | (15,128) |
| Exchange adjustment..... | — | (798) | (9,811) | (49,402) | (8,245) | (837) | — | (69,093) |
| At December 31, 2018 | — | 17,388 | 215,018 | 1,055,461 | 186,436 | 18,373 | — | 1,492,676 |
| Net book value: | | | | | | | | |
| At December 31, 2016..... | 82,352 | 91,498 | 765,632 | 1,104,988 | 72,155 | 13,114 | 168,882 | 2,298,621 |
| At December 31, 2017..... | 93,999 | 95,751 | 942,312 | 1,292,642 | 84,079 | 12,648 | 117,473 | 2,638,904 |
| At December 31, 2018..... | 90,184 | 89,022 | 867,005 | 1,393,774 | 96,444 | 9,532 | 215,687 | 2,761,648 |

Notes:

- (i) The Group obtains the right to use certain land in the PRC under a number of operating lease agreements of 50 years. As at December 31, 2016, 2017 and 2018, the carrying amounts of leasehold land held for own use were HK\$91,498,000, HK\$95,751,000 and HK\$89,022,000 respectively, and the carrying amount of properties held for own use thereon were HK\$702,406,000, HK\$872,555,000 and HK\$802,660,000 respectively.

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

| | At December 31, | | |
|---|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Freehold land..... | 9,159 | 10,466 | 10,042 |
| Leasehold land | 52,879 | 26,928 | 14,433 |
| Properties held for own use | 517,756 | 363,736 | 307,618 |
| Machinery | 134,602 | 8,881 | 7,258 |
| Furniture, fixtures and equipment | 1,796 | 2,372 | 2,011 |
| Aggregate carrying value of pledged property, plant and equipment | <u>716,192</u> | <u>412,383</u> | <u>341,362</u> |

- (a) *The analysis of net book value of leasehold land, freehold land and properties is as follows:*

| | At December 31, | | |
|--|-----------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| In the PRC | | | |
| — Medium-term leases | 793,904 | 968,306 | 891,682 |
| In Germany | | | |
| — Freehold land and buildings..... | 47,472 | 51,930 | 48,303 |
| In Turkey | | | |
| — Freehold land and buildings..... | 96,009 | 109,402 | 104,021 |
| In Czech | | | |
| — Freehold land and buildings..... | 2,097 | 2,424 | 2,205 |
| | <u>939,482</u> | <u>1,132,062</u> | <u>1,046,211</u> |
| Representing: | | | |
| — Properties held for own use, carried at cost | 765,632 | 942,312 | 867,005 |
| — Leasehold land..... | 91,498 | 95,751 | 89,022 |
| — Freehold land | 82,352 | 93,999 | 90,184 |
| | <u>939,482</u> | <u>1,132,062</u> | <u>1,046,211</u> |

- (b) *Property, plant and equipment held under finance leases*

The Group leases certain production machinery and equipment under finance leases with lease period ranging from 3 to 5 years. None of the leases includes contingent rentals. The net book value of the assets held under finance leases is HK\$177,596,000, HK\$208,519,000 and HK\$236,499,000 as at December 31, 2016, 2017 and 2018, respectively.

13 INTANGIBLE ASSETS

| | Customer relationships | Patents | Incomplete contracts | Technical know-how | Total |
|--|---------------------------|----------|-------------------------|-----------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | | | |
| At January 1, 2016 | 185,237 | 10,298 | 80,245 | 149 | 275,929 |
| Exchange adjustment | (8,957) | (653) | (2,845) | (8) | (12,463) |
| At December 31, 2016 and January 1, 2017 | 176,280 | 9,645 | 77,400 | 141 | 263,466 |
| Addition through business combination (Note 37) | — | — | — | 24,857 | 24,857 |
| Exchange adjustment | 19,355 | 676 | 11,042 | 229 | 31,302 |
| At December 31, 2017 and January 1, 2018 | 195,635 | 10,321 | 88,442 | 25,227 | 319,625 |
| Exchange adjustment | (8,397) | (474) | (3,580) | (1,154) | (13,605) |
| At December 31, 2018 | 187,238 | 9,847 | 84,862 | 24,073 | 306,020 |
| Accumulated amortization: | | | | | |
| At January 1, 2016 | 58,388 | 1,770 | 35,664 | 84 | 95,906 |
| Charge for the year | 37,914 | 1,093 | 27,052 | 60 | 66,119 |
| Exchange adjustment | (4,965) | (158) | (2,516) | (3) | (7,642) |
| At December 31, 2016 and January 1, 2017 | 91,337 | 2,705 | 60,200 | 141 | 154,383 |
| Charge for the year | 21,945 | 1,083 | 18,641 | 829 | 42,498 |
| Exchange adjustment | 9,012 | 227 | 9,601 | 7 | 18,847 |
| At December 31, 2017 and January 1, 2018 | 122,294 | 4,015 | 88,442 | 977 | 215,728 |
| Charge for the year | 10,877 | 1,107 | — | 2,477 | 14,461 |
| Exchange adjustment | (5,749) | (223) | (3,580) | (121) | (9,673) |
| At December 31, 2018 | 127,422 | 4,899 | 84,862 | 3,333 | 220,516 |
| Net book value: | | | | | |
| At December 31, 2016 | 84,943 | 6,940 | 17,200 | — | 109,083 |
| At December 31, 2017 | 73,341 | 6,306 | — | 24,250 | 103,897 |
| At December 31, 2018 | 59,816 | 4,948 | — | 20,740 | 85,504 |

Intangible assets represent customer relationships and patents acquired by the Group in connection with the acquisition of Shenhai Industrial, Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the “Shenhai Group”) completed on June 3, 2014, customer relationships, incomplete contracts and technical know-how acquired by the Group in connection with the acquisition of Cengiz Makina completed on August 26, 2014 and technical know-how acquired by the Group in connection with the acquisition of Imposs Impeller completed on August 23, 2017. The amortization charge for the years ended December 31, 2016, 2017 and 2018 is included in “Administrative and other operating expenses” in the consolidated statements of profit or loss.

14 GOODWILL

| | HK\$'000 |
|--|------------------|
| Cost: | |
| At January 1, 2016 | 603,770 |
| Exchange adjustment | <u>(32,447)</u> |
| At December 31, 2016 and January 1, 2017 | 571,323 |
| Exchange adjustment | <u>54,686</u> |
| At December 31, 2017 and January 1, 2018 | 626,009 |
| Exchange adjustment | <u>(27,519)</u> |
| At December 31, 2018 | <u>598,490</u> |
| Accumulated impairment losses: | |
| At January 1, 2016, December 31, 2016, 2017 and 2018 | — |
| Impairment loss | <u>(141,178)</u> |
| At December 31, 2018 | <u>(141,178)</u> |
| Carrying amount: | |
| At December 31, 2018 | <u>457,312</u> |
| At December 31, 2017 | <u>626,009</u> |
| At December 31, 2016 | <u>571,323</u> |

Impairment tests for cash-generating unit containing goodwill

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

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

| | At December 31, | | |
|---------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Shenhai Group..... | 369,774 | 395,708 | 236,334 |
| Cengiz Makina | 201,549 | 230,301 | 220,978 |
| | <u>571,323</u> | <u>626,009</u> | <u>457,312</u> |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using an estimated annual growth rate of 2% for both Shenhai Group and Cengiz Makina respectively as at December 31, 2016, 2017 and 2018, which is based on industry growth forecasts. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 13.1%, 12.9% and 13.5%, and 14.0%, 14.5% and 14.5% for Shenhai Group and Cengiz Makina respectively as at December 31, 2016, 2017 and 2018. Key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the five-year projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU. Budgeted EBITDA growth rate in the five-year projection period was estimated taking into account of revenue, gross margins and operating expenses based on past performance and its expectation for market development.

The estimated recoverable amount of the CGU exceeded its carrying amount for Shenhai Group as at December 31, 2016 and 2017 by approximately HK\$143,483,000 and HK\$153,780,000. The estimated recoverable amount of the CGU exceeded its carrying amount for Cengiz Makina as at December 31, 2016, 2017 and 2018 by approximately HK\$100,650,000, HK\$142,484,000 and HK\$162,178,000.

Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for carrying amount to equal recoverable amount (in percentage of change)

| | 2016 | 2017 | 2018 |
|---|--------|--------|----------------|
| Shenhai Group | | | |
| Increase in discount rate | +32.6% | +33.1% | Not applicable |
| Decrease in budgeted EBITDA growth rate (average of next five years) | -29.9% | -34.1% | Not applicable |
| Cengiz Makina | | | |
| Increase in discount rate | +37.5% | +33.3% | +33.4% |
| Decrease in budgeted EBITDA growth rate (average of next five years) | -39.7% | -72.4% | -52.9% |

The Group performs annual impairment test on goodwill at the end of the reporting year. Except for Shenhai Group as at December 31, 2018, the recoverable amount of the CGUs based on the value-in-use calculations is higher than its carrying amount. In performing the annual goodwill impairment test for Shenhai Group on December 31, 2018, as the result of the unexpected downturn of the China automobile market circumstances since the fourth quarter of 2018 and 2019 outlook, and its unfavorable impacts on Shenhai Group's performance, the Group reduced the budgeted EBITDA growth rate based on the available information to reflect the latest market conditions, the result indicates that the estimated recoverable amount is lower than its carrying amount for Shenhai Group and an impairment loss of goodwill of HK\$141,178,000 has been recognized in the consolidated statements of profit or loss.

Also, based on the sensitivity analysis above and except for Shenhai Group as at December 31, 2018, the Group concluded that a reasonably possible change in key parameters would not cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2016, 2017 and 2018. As the CGU for Shenhai Group as at December 31, 2018 has been reduced to its recoverable amount of HK\$236,334,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

15 DEFERRED EXPENSES

| | At December 31, | | |
|------------------------------------|-----------------|----------------|-----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | |
| At the beginning of the year | 336,419 | 392,513 | 500,679 |
| Additions | 80,709 | 77,707 | 76,055 |
| Disposals | — | — | (73,754) |
| Exchange adjustment | <u>(24,615)</u> | <u>30,459</u> | <u>(25,589)</u> |
| At the end of the year | <u>392,513</u> | <u>500,679</u> | <u>477,391</u> |
| Accumulated amortization: | | | |
| At the beginning of the year | 179,713 | 226,409 | 316,052 |
| Charge for the year | 60,640 | 71,065 | 86,020 |
| Disposals | — | — | (73,754) |
| Exchange adjustment | <u>(13,944)</u> | <u>18,578</u> | <u>(17,439)</u> |
| At the end of the year | <u>226,409</u> | <u>316,052</u> | <u>310,879</u> |
| Net book value: | | | |
| At the beginning of the year | <u>156,706</u> | <u>166,104</u> | <u>184,627</u> |
| At the end of the year | <u>166,104</u> | <u>184,627</u> | <u>166,512</u> |

The amortization charges for the years ended December 31, 2016, 2017 and 2018 were included in "cost of sales" in the consolidated statements of profit or loss.

16 INTEREST IN SUBSIDIARIES

| | The Company | | |
|------------------------------------|-----------------|----------------|----------------|
| | At December 31, | | |
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Unlisted share, at cost | 291,000 | 291,000 | 291,000 |
| Amount due from a subsidiary | <u>276,072</u> | <u>357,712</u> | <u>291,287</u> |
| | <u>567,072</u> | <u>648,712</u> | <u>582,287</u> |

Please refer to Note 1 for the particulars of subsidiaries during the Relevant Periods.

The amount due from a subsidiary above represents the loans the Company offered to its wholly owned subsidiary Impro International Limited as at December 31, 2016, 2017 and 2018. The amount is unsecured, interest-free and has no fixed term of repayment.

17 INTEREST IN A JOINT VENTURE

| | At December 31, | | |
|--------------------------|-------------------------|--------------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Share of net assets..... | 5,925 | — | — |
| | <u>5,925</u> | <u>—</u> | <u>—</u> |
| | Year ended December 31, | | |
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Share of gain..... | 3,255 | 1,411 | — |
| | <u>3,255</u> | <u>1,411</u> | <u>—</u> |

Details of the Group's interest in the joint venture as at December 31, 2016 which is accounted for using equity method in the Historical Financial Information are set out below:

| Name of Joint venture | Form of business structure | Place of incorporation and business | Particulars of issued and paid in capital | Proportion of ownership interest | | | Principle activity |
|--|----------------------------|-------------------------------------|---|----------------------------------|---------------------|----------------------|---|
| | | | | Group's effective interest | Held by the Company | Held by a subsidiary | |
| <i>Impro Impeller (Yixing) Co., Ltd.</i> | Incorporated | PRC | US\$2,000,000 | 51% | — | 51% | Manufacture of machining parts and impeller |

Impro Impeller was established by Impro Industries (Yixing) Co., Ltd., a subsidiary of the Group, and another investor which is an independent limited liability company incorporated in the United States.

Impro Impeller, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

According to Impro Impeller's Articles of Association, no single shareholder is in a position to control the shareholders' meeting and no single director appointed by either shareholder is in a position to control the Board of Directors. Therefore, as at December 31, 2016, although the Group holds 51% of the equity interests in Impro Impeller, management of the Group consider that Impro Impeller is a joint venture rather than a subsidiary.

In July 2017, the Group entered into an agreement to acquire the 16% equity interest in Impress Impeller through capital injection in Impress Impeller at a consideration of RMB11,189,000 (equivalent to approximately HK\$13,275,000). The Articles of Association of Impress Impeller are revised accordingly. The Group has the right to appoint the majority of the Directors and to unilaterally direct the operating activities of Impress Impeller by controlling the Board of Directors. Therefore, upon the completion of the acquisition on August 23, 2017, Impress Impeller became a subsidiary of the Group. Further details of the acquisition was disclosed in Note 37.

The information of joint venture is as follow:

| | At December 31, | | |
|--|-----------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Carrying amount of joint venture in the consolidated statements of financial position..... | 5,925 | — | — |

| | Year ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| The Group's share of the joint venture | | | |
| Gain from continuing operations..... | 3,255 | 1,411 | — |
| Exchange adjustment..... | (327) | 395 | — |
| Total comprehensive income..... | 2,928 | 1,806 | — |

18 OTHER FINANCIAL ASSET

| | At December 31, | | |
|---|-----------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Equity securities at FVOCI (non-recycling) | | | |
| — Unlisted equity securities..... | 2,471 | 2,645 | 2,283 |

The unlisted equity securities are shares in a private company incorporated in the PRC and engaged in financial guarantee. The Group designated its investment at FVOCI (non-recycling). No dividends were received on this investment during the Relevant Periods.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 36(e).

19 INVENTORIES

(a) *Inventories in the consolidated statements of financial position comprise:*

| | At December 31, | | |
|--------------------------------|-----------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Raw materials | 136,109 | 179,766 | 196,885 |
| Work in progress..... | 198,196 | 229,669 | 296,032 |
| Finished goods | <u>215,926</u> | <u>264,724</u> | <u>293,820</u> |
| | 550,231 | 674,159 | 786,737 |
| Write down of inventories..... | <u>(35,588)</u> | <u>(47,625)</u> | <u>(48,307)</u> |
| | <u>514,643</u> | <u>626,534</u> | <u>738,430</u> |

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

| | Year ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Carrying amount of inventories sold | 1,776,801 | 2,062,474 | 2,538,478 |
| Provision for write-down of inventories | <u>1,076</u> | <u>8,797</u> | <u>2,868</u> |
| | <u>1,777,877</u> | <u>2,071,271</u> | <u>2,541,346</u> |

All inventories are expected to be recovered within one year.

As at December 31, 2016, 2017 and 2018, inventories of HK\$77,431,000, HK\$71,438,000 and HK\$103,815,000 were pledged to secure certain bank facilities with commercial banks.

20 TRADE AND BILLS RECEIVABLES

| | At December 31, | | |
|----------------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade receivables | 543,501 | 712,022 | 854,844 |
| Bills receivable | 24,538 | 61,030 | 87,162 |
| | 568,039 | 773,052 | 942,006 |
| Less: loss allowance | (18,632) | (16,889) | (22,548) |
| | <u>549,407</u> | <u>756,163</u> | <u>919,458</u> |

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

As at December 31, 2016, 2017 and 2018, trade receivables of HK\$156,408,000, HK\$172,448,000 and HK\$249,231,000 were pledged to secure certain bank facilities with commercial banks.

Aging analysis

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

| | At December 31, | | |
|--|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within 1 month | 301,826 | 400,482 | 460,082 |
| 1 to 3 months | 217,059 | 299,098 | 386,943 |
| Over 3 months but within 12 months | 30,522 | 55,839 | 72,433 |
| Over 12 months | — | 744 | — |
| | <u>549,407</u> | <u>756,163</u> | <u>919,458</u> |

Trade and bills receivables are due within 15-120 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 36(a).

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| The Group | At December 31, | | |
|--------------------------------------|-----------------|---------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Prepayments..... | 43,284 | 32,378 | 36,312 |
| Value added tax recoverable | 17,783 | 25,877 | 57,735 |
| Other deposits and receivables | 27,631 | 26,804 | 25,992 |
| | 88,698 | 85,059 | 120,039 |
| Less: loss allowance (Note i) | — | (9,570) | (18,260) |
| | <u>88,698</u> | <u>75,489</u> | <u>101,779</u> |

| The Company | At December 31, | | |
|------------------------|-----------------|-----------|--------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Other receivables..... | — | 52 | 1,054 |
| | <u>—</u> | <u>52</u> | <u>1,054</u> |

Notes:

- (i) Subsequent to the completion of acquisition of Shenhai Group in June 2014, the Group entered into supplemental agreements with the former shareholders of Shenhai Group in November 2014 and June 2015, respectively, to finalize the consideration of the transfer of ownership interest of Shenhai Group under the original acquisition agreement between the Group and former shareholders of Shenhai Group (the "Seller"). The consideration was payable by instalment and the unpaid portion was fully recognized in the consolidated statement of financial position as at December 31, 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 July 3, 2018 claiming that the Seller and the Seller's representative have committed a tort fraud, which has been rejected on September 30, 2018. The Group has made a further appeal to such rejection decision but it has been rejected again on November 27, 2018.

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

Further details related to this legal proceeding are set out in the section headed "Business" included in the Prospectus.

As at December 31, 2018, the Dissenting Payments were recorded under other deposits and receivables in the Group's consolidated statements of financial position. The Group made provision of RMB16,000,000 (equivalent to HK\$18,260,000) (As at December 31, 2017: RMB8,000,000 (equivalent to HK\$9,570,000)) on such other deposits and receivables.

All of prepayments, deposits and other receivables balances are expected to be recovered or recognized as expense within one year except the receivable due from a joint venture in Note 35(d). The Group's exposure to credit risk related to prepayments, deposits and other receivables is disclosed in Note 36(a).

22 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

(a) *Cash and cash equivalents comprise:*

| The Group | At December 31, | | |
|--------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cash at bank | 181,877 | 242,006 | 235,303 |
| Cash in hand | 373 | 316 | 240 |
| | <u>182,250</u> | <u>242,322</u> | <u>235,543</u> |

| The Company | At December 31, | | |
|--------------------|-----------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cash at bank | 51 | 47 | 211 |

(b) *Pledged deposits comprise:*

| | At December 31, | | |
|---------------------------------------|-----------------|--------------|--------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Pledged deposits for | | | |
| — issuance of letters of credit | <u>9,122</u> | <u>3,039</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.

(c) *Reconciliation of profits before taxation to cash generated from operations*

| | Note | Year ended December 31, | | |
|--|------|-------------------------|----------------|------------------|
| | | 2016 | 2017 | 2018 |
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit before taxation..... | | 410,801 | 481,494 | 487,382 |
| Adjustments for: | | | | |
| — Depreciation of property, plant and equipment | 6(c) | 229,924 | 248,207 | 277,734 |
| — Amortization of intangible assets | 6(c) | 66,119 | 42,498 | 14,461 |
| — Amortization of deferred expenses | 6(c) | 60,640 | 71,065 | 86,020 |
| — Net finance costs..... | 6(a) | 80,407 | 76,262 | 87,050 |
| — Gain arising from business combination .. | 5(b) | — | (6,233) | — |
| — Share of profit of a joint venture | 17 | (3,255) | (1,411) | — |
| — Net loss/(gain) on disposal of property, plant and equipment | 5(b) | 285 | 2,245 | (504) |
| — Impairment loss of goodwill | 5(b) | — | — | 141,178 |
| — Impairment loss on trade and other receivables | 6(c) | 15,906 | 10,699 | 20,722 |
| — Provision for write-down of inventories.... | 6(c) | 1,076 | 8,797 | 2,868 |
| Operating profit before changes in working capital | | 861,903 | 933,623 | 1,116,911 |
| Decrease in pledged deposits..... | | 3,390 | 6,083 | 844 |
| Decrease/(increase) in inventories..... | | 18,499 | (71,720) | (133,748) |
| Increase in trade and bills receivables..... | | (65,388) | (145,878) | (201,387) |
| (Increase)/decrease in prepayments, deposits and other receivables | | (5,089) | 9,954 | (40,047) |
| Increase in trade payables | | 22,009 | 72,637 | 97,708 |
| (Decrease)/increase in deferred income..... | | (57,677) | 490 | (2,939) |
| Decrease in other financial liabilities | | (35,665) | — | — |
| (Decrease)/increase in other payables and accruals | | (51,642) | 29,420 | 32,205 |
| Increase in defined benefit retirement plans obligation | | 1,891 | 2,634 | 997 |
| Cash generated from operations..... | | <u>692,231</u> | <u>837,243</u> | <u>870,544</u> |

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

| | Bank loans | Obligations under finance leases | Total |
|---|------------------|--|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Note 23) | (Note 24) | |
| At January 1, 2017 | 1,818,426 | 90,820 | 1,909,246 |
| Changes from financing cash flows: | | | |
| Proceeds from bank loans | 847,516 | — | 847,516 |
| Repayment of bank loans | (905,438) | — | (905,438) |
| Payment of finance leases | — | (41,324) | (41,324) |
| Interest paid | (83,040) | — | (83,040) |
| Total changes from financing cash flows | <u>(140,962)</u> | <u>(41,324)</u> | <u>(182,286)</u> |
| Exchange adjustments | <u>41,306</u> | <u>12,612</u> | <u>53,918</u> |
| Other changes: | | | |
| New finance leases | — | 31,330 | 31,330 |
| Interest expenses (Note 6(a)) | 74,735 | 3,657 | 78,392 |
| Capitalized borrowing costs (Note 6(a)) | <u>3,261</u> | <u>—</u> | <u>3,261</u> |
| Total other changes | <u>77,996</u> | <u>34,987</u> | <u>112,983</u> |
| At December 31, 2017 and January 1, 2018 | 1,796,766 | 97,095 | 1,893,861 |
| Changes from financing cash flows: | | | |
| Proceeds from bank loans | 1,266,052 | — | 1,266,052 |
| Repayment of bank loans | (1,234,434) | — | (1,234,434) |
| Payment of finance leases | — | (34,244) | (34,244) |
| Interest paid | (84,214) | — | (84,214) |
| Total changes from financing cash flows | <u>(52,596)</u> | <u>(34,244)</u> | <u>(86,840)</u> |
| Exchange adjustments | <u>(36,190)</u> | <u>(5,239)</u> | <u>(41,429)</u> |
| Other changes: | | | |
| New finance leases | — | 73,000 | 73,000 |
| Interest expenses (Note 6(a)) | 82,482 | 5,407 | 87,889 |
| Capitalized borrowing costs (Note 6(a)) | <u>3,835</u> | <u>—</u> | <u>3,835</u> |
| Total other changes | <u>86,317</u> | <u>78,407</u> | <u>164,724</u> |
| At December 31, 2018 | <u>1,794,297</u> | <u>136,019</u> | <u>1,930,316</u> |

23 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 December 31, | | |
|--|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Short-term bank loans..... | 325,289 | 466,940 | 394,256 |
| Current portion of long-term bank loans..... | 462,333 | 533,773 | 701,521 |
| Within 1 year or on demand | <u>787,622</u> | <u>1,000,713</u> | <u>1,095,777</u> |
| After 1 year but within 2 years | 788,823 | 569,346 | 434,579 |
| After 2 years but within 5 years..... | <u>241,981</u> | <u>226,707</u> | <u>263,941</u> |
| | <u>1,030,804</u> | <u>796,053</u> | <u>698,520</u> |
| | <u>1,818,426</u> | <u>1,796,766</u> | <u>1,794,297</u> |

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

| | At December 31, | | |
|--------------------------|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loans | | | |
| - Secured (Note i) | 536,125 | 420,148 | 581,487 |
| - Unsecured..... | <u>1,282,301</u> | <u>1,376,618</u> | <u>1,212,810</u> |
| | <u>1,818,426</u> | <u>1,796,766</u> | <u>1,794,297</u> |

Notes:

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

| | The Group | | |
|--|-----------------|----------------|----------------|
| | At December 31, | | |
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Freehold land (Note 12(ii)) | 9,159 | 10,466 | 10,042 |
| Leasehold land (Note 12(ii)) | 52,879 | 26,928 | 14,433 |
| Properties held for own use (Note 12(ii)) | 517,756 | 363,736 | 307,618 |
| Machinery (Note 12(ii)) | 134,602 | 8,881 | 7,258 |
| Furniture, fixtures and equipment (Note 12(ii))..... | 1,796 | 2,372 | 2,011 |
| Inventories (Note 19) | 77,431 | 71,438 | 103,815 |
| Trade receivables (Note 20) | 156,408 | 172,448 | 249,231 |
| | <u>950,031</u> | <u>656,269</u> | <u>694,408</u> |

- (ii) Fulfilment of loan covenants

Certain banking facilities of the Group are subject to the fulfilment of financial covenants relating to certain of the financial ratios of the Group or the subsidiary of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 36(b). As at December 31, 2016, 2017 and 2018, none of the covenants relating to drawn down facilities had been breached.

24 OBLIGATIONS UNDER FINANCE LEASES

At the end of the reporting period, the Group had obligations under finance leases repayable as follows:

- (a) *The minimum lease payments are as follows:*

| | At December 31, | | |
|--|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within 1 year | 36,557 | 29,897 | 60,716 |
| After 1 year but within 2 years | 21,038 | 30,805 | 60,642 |
| After 2 years but within 5 years | 39,200 | 43,147 | 21,347 |
| | 96,795 | 103,849 | 142,705 |
| Future finance charges on finance leases..... | <u>(5,975)</u> | <u>(6,754)</u> | <u>(6,686)</u> |
| Present value of capital lease liabilities | <u>90,820</u> | <u>97,095</u> | <u>136,019</u> |

(b) *The present values of minimum lease payments are as follows:*

| | At December 31, | | |
|---------------------------------------|-----------------|---------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within 1 year | 34,874 | 26,824 | 59,444 |
| After 1 year but within 2 years | 19,981 | 30,131 | 57,233 |
| After 2 years but within 5 years..... | 35,965 | 40,140 | 19,342 |
| | <u>90,820</u> | <u>97,095</u> | <u>136,019</u> |

25 TRADE PAYABLES

| | At December 31, | | |
|----------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Trade payables | <u>204,792</u> | <u>306,863</u> | <u>388,193</u> |

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

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

| | At December 31, | | |
|----------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within 1 month | 145,791 | 207,852 | 275,294 |
| 1 to 3 months | 38,926 | 83,173 | 101,193 |
| Over 3 months | 20,075 | 15,838 | 11,706 |
| | <u>204,792</u> | <u>306,863</u> | <u>388,193</u> |

26 OTHER PAYABLES AND ACCRUALS

| The Group | At December 31, | | |
|-----------------------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Other payables (Note i) | 209,484 | 275,244 | 255,829 |
| Accrued expenses | 35,006 | 38,623 | 54,131 |
| Other payables and accruals | <u>244,490</u> | <u>313,867</u> | <u>309,960</u> |
| | | | |
| The Company | At December 31, | | |
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Other payables | <u>—</u> | <u>4,212</u> | <u>6,766</u> |

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

Note:

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

| | At December 31, | | |
|--|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Deferred consideration payable (Note 21(i)).. | 68,617 | 92,570 | 62,460 |
| Salaries, wages, bonus and benefits payable | 61,963 | 77,588 | 82,192 |
| Payables for purchase of property, plant and equipment | 24,137 | 37,224 | 36,723 |
| Contract liabilities | 11,074 | 9,178 | 11,371 |
| Other tax payable | 10,677 | 13,680 | 14,323 |
| Others | 33,016 | 45,004 | 48,760 |
| | <u>209,484</u> | <u>275,244</u> | <u>255,829</u> |

Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers.

During the Relevant Periods, all contract liabilities brought-forward from the previous financial year end were fully recognized as revenue in the next financial year.

27 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) *Current taxation in the consolidated statements of financial position represents:*

| | At December 31, | | |
|--|-----------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At the beginnings of the year | 22,378 | 24,883 | 27,107 |
| Provision for the year: | | | |
| - PRC Corporate Income Tax..... | 17,147 | 46,816 | 56,101 |
| - Hong Kong Profits Tax..... | 22,766 | 8,645 | 30,066 |
| - Income tax for tax jurisdictions outside PRC and Hong Kong..... | 22,336 | 30,143 | 13,680 |
| Tax paid: | | | |
| - PRC Corporate income Tax..... | (29,105) | (37,387) | (60,801) |
| - Hong Kong Profits Tax..... | (13,194) | (25,552) | (3,148) |
| - Income tax for tax jurisdictions outside PRC and Hong Kong..... | (16,459) | (22,358) | (29,010) |
| | 25,869 | 25,190 | 33,995 |
| Exchange adjustment..... | (986) | 1,917 | (906) |
| At the end of the year | <u>24,883</u> | <u>27,107</u> | <u>33,089</u> |
| Represented by: | | | |
| Taxation recoverable | (3,152) | (4,204) | (5,239) |
| Taxation payable..... | <u>28,035</u> | <u>31,311</u> | <u>38,328</u> |
| | <u>24,883</u> | <u>27,107</u> | <u>33,089</u> |

(b) *Deferred tax assets and liabilities recognized represents:*

- (i) The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the years ended December 31, 2016, 2017 and 2018 are as follows:

| | Inventory provision | Unrealized profits on inventories | Investment Incentive | Depreciation of plant, property and equipment | Pension provision | Fair value change of financial instruments | Other temporary differences | Total |
|--|------------------------|---|-------------------------|--|----------------------|---|-----------------------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At January 1, 2016..... | 6,070 | 15,985 | — | 108 | 3,075 | 5,885 | 12,530 | 43,653 |
| Recognized in profit or loss. | (428) | (1,550) | — | 74 | (620) | (5,885) | 1,279 | (7,130) |
| Recognized in other comprehensive income ... | — | — | — | — | 2,430 | — | — | 2,430 |
| Exchange adjustment | (355) | — | — | — | (193) | — | (353) | (901) |
| At December 31, 2016 and January 1, 2017..... | 5,287 | 14,435 | — | 182 | 4,692 | — | 13,456 | 38,052 |
| Acquisition through business combination (Note 37) | — | — | — | — | — | — | 2,918 | 2,918 |
| Recognized in profit or loss. | 1,385 | (4,224) | — | 82 | 56 | — | 1,636 | (1,065) |
| Recognized in other comprehensive income ... | — | — | — | — | (763) | — | — | (763) |
| Exchange adjustment | 397 | — | — | — | 630 | — | 724 | 1,751 |
| At December 31, 2017 and January 1, 2018..... | 7,069 | 10,211 | — | 264 | 4,615 | — | 18,734 | 40,893 |
| Recognized in profit or loss. | 438 | 2,805 | 27,170 | 71 | (222) | — | 6,382 | 36,644 |
| Recognized in other comprehensive income ... | — | — | — | — | 1,100 | — | — | 1,100 |
| Exchange adjustment | (327) | — | (803) | — | (212) | — | (900) | (2,242) |
| At December 31, 2018..... | <u>7,180</u> | <u>13,016</u> | <u>26,367</u> | <u>335</u> | <u>5,281</u> | <u>—</u> | <u>24,216</u> | <u>76,395</u> |

- (ii) The components of deferred tax liabilities recognized in the consolidated statements of financial position and the movements during the years ended December 31, 2016, 2017 and 2018 are as follows:

| | Capitalized deferred expenses | Fair value adjustment arising from business combination | Capitalized borrowing costs | Other temporary differences | Total |
|--|-------------------------------------|---|-----------------------------------|-----------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At January 1, 2016 | 29,237 | 84,682 | 8,188 | 17,277 | 139,384 |
| Recognized in profit or loss..... | 7,446 | (15,428) | 2,371 | 7,660 | 2,049 |
| Exchange adjustment..... | (2,165) | (3,959) | (618) | (967) | (7,709) |
| At December 31, 2016 and January 1, 2017..... | 34,518 | 65,295 | 9,941 | 23,970 | 133,724 |
| Acquisition through business combination (Note 37)..... | — | 6,215 | — | — | 6,215 |
| Recognized in profit or loss..... | 2,173 | (11,193) | (889) | 3,032 | (6,877) |
| Exchange adjustment..... | 2,496 | 6,394 | 667 | 2,391 | 11,948 |
| At December 31, 2017 and January 1, 2018..... | 39,187 | 66,711 | 9,719 | 29,393 | 145,010 |
| Recognized in profit or loss..... | 352 | (5,522) | 692 | 17,186 | 12,708 |
| Exchange adjustment..... | (1,814) | (3,051) | (470) | (1,623) | (6,958) |
| At December 31, 2018 | <u>37,725</u> | <u>58,138</u> | <u>9,941</u> | <u>44,956</u> | <u>150,760</u> |

- (iii) Reconciliation to the consolidated statements of financial position:

| | At December 31, | | |
|---|-----------------|------------------|-----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Net deferred tax assets recognized in the consolidated statements of financial position..... | 23,823 | 24,231 | 22,635 |
| Net deferred tax liabilities recognized in the consolidated statements of financial position..... | (119,495) | (128,348) | (97,000) |
| | <u>(95,672)</u> | <u>(104,117)</u> | <u>(74,365)</u> |

(c) ***Deferred tax assets not recognized***

In accordance with the accounting policy set out in Note 2(t), the Group did not recognize deferred tax assets of HK\$18,506,000, HK\$21,813,000 and HK\$17,001,000, respectively, in respect of cumulative losses of the Group's subsidiaries in Germany, Czech, Luxembourg and Mexico of HK\$59,241,000, HK\$69,742,000 and HK\$53,045,000 as at December 31, 2016, 2017 and 2018, respectively, as it was not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entities. The tax losses arising from operations in Germany, Czech, Luxembourg and Mexico do not expire under current tax legislation.

(d) ***Deferred tax liabilities not recognized***

As at December 31, 2016, 2017 and 2018, the Group has not recognized deferred tax liabilities of HK\$120,106,000, HK\$147,651,000 and HK\$177,746,000 respectively, in respect of the dividend withholding tax on temporary differences relating to the undistributed profits of the subsidiaries of the Group amounted to HK\$1,744,527,000, HK\$2,118,158,000 and HK\$2,510,337,000 respectively. Although the Group expects to distribute profit after listing, the distributable profits will be principally contributed by the operation profits of its Hong Kong subsidiaries. The Group's directors are in opinion that the earnings of the Group's subsidiaries other than the subsidiaries in Hong Kong will be retained at the subsidiary level and not to be remitted to the Group in the foreseeable future, therefore no deferred tax liabilities arisen from undistributed profits was recognized as at December 31, 2016, 2017 and 2018.

28 DEFERRED INCOME

As at December 31, 2016, 2017 and 2018, deferred income represented unamortized conditional government grants amounting to HK\$60,127,000, HK\$64,852,000 and HK\$59,034,000, for relocation and acquisition of machinery of the Group's PRC subsidiaries.

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

29 EMPLOYEE RETIREMENT BENEFITS

(a) ***Defined benefit retirement plans***

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

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

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

The actuarial valuations of the defined benefit retirement obligation were performed in accordance with IAS 19 "Employee Benefits" as at December 31, 2016, 2017 and 2018 by actuaries using the projected unit credit method.

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

| | At December 31, | | |
|---|-----------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Present value of defined benefit retirement plans obligation..... | <u>61,179</u> | <u>65,970</u> | <u>60,977</u> |

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

| | At December 31, | | |
|--|-----------------|---------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At the beginning of the year | 48,232 | 61,179 | 65,970 |
| Remeasurements effect recognized in other comprehensive income | | | |
| — actuarial loss/(gain) | 15,911 | (3,093) | 1,542 |
| Exchange adjustment | <u>(4,855)</u> | <u>5,250</u> | <u>(7,532)</u> |
| | 59,288 | 63,336 | 59,980 |
| Benefits paid by the plans | (2,820) | (2,864) | (3,236) |
| Current service cost | 3,070 | 3,415 | 2,173 |
| Interest cost | <u>1,641</u> | <u>2,083</u> | <u>2,060</u> |
| At the end of the year | <u>61,179</u> | <u>65,970</u> | <u>60,977</u> |

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

| | Year ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Current service cost..... | 3,070 | 3,415 | 2,173 |
| Interest on defined benefit retirement plans obligation..... | 1,641 | 2,083 | 2,060 |
| Total amounts recognized in profit or loss (Note 6(b))..... | 4,711 | 5,498 | 4,233 |
| | — | — | — |
| Actuarial loss/(gain) | 15,911 | (3,093) | 1,542 |
| Exchange adjustment..... | (4,855) | 5,250 | (7,532) |
| Total amounts recognized in other comprehensive income..... | 11,056 | 2,157 | (5,990) |
| | — | — | — |
| Total defined benefit costs | 15,767 | 7,655 | (1,757) |

The weighted average duration of the defined benefit retirement plans obligation of the two Plans in German subsidiaries is 16, 16 and 15 years, respectively as at December 31, 2016, 2017 and 2018.

The weighted average duration of the defined benefit retirement plans obligation of the Plan in Cengiz Makina is 24, 25 and 25 years, respectively as at December 31, 2016, 2017 and 2018.

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

| | Year ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost of sales | 1,801 | 2,237 | 1,611 |
| Administrative and other operating expenses | 2,910 | 3,261 | 2,622 |
| | 4,711 | 5,498 | 4,233 |

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

| | 2016 | 2017 | 2018 |
|-------------------------|-----------|-----------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Discount rate | 1.6%-3.0% | 1.3%-4.7% | 1.7%-3.6% |
| Pension inflation | 1.5%-5.0% | 1.5%-6.0% | 1.5%-10.0% |

The below analysis shows how the defined benefit obligation as at December 31, 2016, 2017 and 2018 would have increased/(decreased) as a result of 0.5% change in the significant actuarial assumptions:

| | 2016 | | 2017 | | 2018 | |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Increase in 0.5% | Decrease in 0.5% | Increase in 0.5% | Decrease in 0.5% | Increase in 0.5% | Decrease in 0.5% |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Discount rate | (3,418) | 3,866 | (3,839) | 4,340 | (4,030) | 4,449 |
| Pension inflation.... | 3,001 | (2,741) | 3,378 | (3,081) | 2,483 | (2,361) |

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

(b) ***Defined contribution retirement plans***

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participate in defined contribution retirement plans (the "Schemes") organized by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended December 31, 2016, 2017 and 2018. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 contribution to the plan vest immediately.

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

30 CAPITAL

(a) *Movement in components of equity*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| The Company | Reserves | | | | Total |
|--|---------------|----------------|-----------------|------------------|----------------|
| | Share capital | Share premium | Capital reserve | Retained profits | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At January 1, 2016 | 128 | 543,673 | 1,110 | 68,547 | 613,458 |
| Changes in equity for 2016: | | | | | |
| Profit and total comprehensive income for the year | — | — | — | 3,665 | 3,665 |
| Appropriation of dividends | — | — | — | (50,000) | (50,000) |
| At December 31, 2016 and January 1, 2017 | 128 | 543,673 | 1,110 | 22,212 | 567,123 |
| Changes in equity for 2017: | | | | | |
| Profit and total comprehensive income for the year | — | — | — | 195,476 | 195,476 |
| Appropriation of dividends | — | — | — | (118,000) | (118,000) |
| Balance at 31 December 2017 January 1, 2018 | 128 | 543,673 | 1,110 | 99,688 | 644,599 |
| Changes in equity for 2018: | | | | | |
| Profit and total comprehensive income for the year | — | — | — | 32,687 | 32,687 |
| Appropriation of dividends | — | — | — | (100,500) | (100,500) |
| Balance at 31 December 2018 . | <u>128</u> | <u>543,673</u> | <u>1,110</u> | <u>31,875</u> | <u>576,786</u> |

(b) *Share capital*

Share capital in the Group's consolidated statements of financial position at December 31, 2016, 2017 and 2018 represented the issued share capital of the Company comprising 1,277,912 shares of HK\$0.1 each.

The movements in the authorized and issued share capital of the Company are set out as follows:

| | <u>Note</u> | <u>No. of shares</u> | <u>HK\$</u> |
|--|-------------|-----------------------|----------------------|
| Authorized: | | | |
| Ordinary shares of HK\$0.1 each..... | (i) | <u>13,500,000,000</u> | <u>1,350,000,000</u> |
| Ordinary shares, issued and fully paid: | | | |
| At December 31, 2016, 2017 and 2018 | | <u>1,277,912</u> | <u>127,791</u> |

Pursuant to the shareholder's resolutions passed on June 14, 2019, the directors of the Company are authorized to allot and issue a total of 1,498,722,088 ordinary shares credited as fully paid at par to the existing shareholders of the Company in proportion to their respective shareholdings by way of capitalization of the sum of HK\$149,872,208.8 standing to the credit of the share premium of the Company.

The proposed Capitalization Issue has not become effective as of the date of this report and will only take place immediately prior to the completion of the Global Offering, details of which are set out in the section headed "Share Capital" included in the Prospectus.

Notes:

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

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

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

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

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

31 RESERVES

The nature and purpose of reserves are as follows:

(a) Share premium

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

(b) Capital reserve

The capital reserve represents (i) the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of issued share capital of the Company pursuant to the reorganization prior to 2011; and (ii) the equity component of the financial instruments issued.

(c) Statutory surplus reserve

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

For general reserve, appropriation to general reserve is at the discretion of the directors of the relevant PRC entities. The reserve can only be used for specific purposes and is not distributable as cash dividends.

For statutory surplus reserve, 10% of the net profit, as determined in accordance with the PRC GAAP, of the relevant PRC entities is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant PRC companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital. Any amount of funds outside of the 50% reserve balance can be distributed as by the relevant PRC entities, as advances or cash dividends, subject however, to complying with applicable requirements. Such dividend or loans could take a considerable amount of time to implement and to be processed by certain governmental agencies.

The Group's subsidiary Cengiz Makina established and operated in the Turkey are required to appropriate their statutory profits (after offsetting prior year losses) to statutory surplus reserves. In accordance with the Turkish Commercial Code ("TCC"), the statutory reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses.

(d) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than HK\$. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(w).

(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 maintaining a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net gearing ratio. For this purpose, the Group defines net debt as total current and non-current bank loans and obligations under finance leases less cash and cash equivalents and pledged deposits. The Group defines capital as including all components of equity.

The Group's adjusted net gearing ratio as at December 31, 2016, 2017 and 2018 are as follows:

| | At December 31, | | |
|---|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Current liabilities: | | | |
| Bank loans..... | 787,622 | 1,000,713 | 1,095,777 |
| Obligations under finance leases..... | 34,874 | 26,824 | 59,444 |
| | <u>822,496</u> | <u>1,027,537</u> | <u>1,155,221</u> |
| Non-current liabilities: | | | |
| Bank loans..... | 1,030,804 | 796,053 | 698,520 |
| Obligations under finance leases..... | 55,946 | 70,271 | 76,575 |
| | <u>1,086,750</u> | <u>866,324</u> | <u>775,095</u> |
| Total debt | 1,909,246 | 1,893,861 | 1,930,316 |
| Less: Cash and cash equivalents | (182,250) | (242,322) | (235,543) |
| Pledged deposits | (9,122) | (3,039) | (2,195) |
| Adjusted net debt | <u>1,717,874</u> | <u>1,648,500</u> | <u>1,692,578</u> |
| Total Equity | <u>1,980,025</u> | <u>2,529,073</u> | <u>2,684,179</u> |
| Adjusted net gearing ratio | 86.8% | 65.2% | 63.1% |

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in Note 23, neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

32 DIVIDENDS

(a) *Dividends payable to equity shareholders of the Company in respect of the year:*

| | At December 31, | | |
|--|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Dividend declared after the end of each reporting period of HK\$92.3, HK\$78.6 and HK\$80.1 per share, respectively..... | <u>118,000</u> | <u>100,500</u> | <u>102,400</u> |

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

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

| | At December 31, | | |
|--|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Dividend in respect of the previous financial year, approved and paid during the year, of HK\$39.1, HK\$92.3 and HK\$78.6 per share, respectively..... | <u>50,000</u> | <u>118,000</u> | <u>100,500</u> |

33 COMMITMENTS**(a) Capital commitments**

Capital commitments outstanding at the respective year end not provided for in the Historical Financial Information are as follows:

| | At December 31, | | |
|--------------------------------|-----------------|----------------|----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Contracted for..... | <u>161,905</u> | <u>197,038</u> | <u>176,127</u> |
| Represented by: | | | |
| Construction of plants | 77,326 | 83,391 | 47,426 |
| Acquisition of machinery | <u>84,579</u> | <u>113,647</u> | <u>128,701</u> |
| | <u>161,905</u> | <u>197,038</u> | <u>176,127</u> |

(b) Operating lease commitments

At December 31, 2016, 2017 and 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At December 31, | | |
|---------------------------------------|-----------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within 1 year | 9,846 | 8,330 | 10,060 |
| After 1 year but within 5 years | 17,631 | 20,042 | 17,881 |
| After 5 years..... | <u>7,667</u> | <u>5,883</u> | <u>2,237</u> |
| | <u>35,144</u> | <u>34,255</u> | <u>30,178</u> |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

34 CONTINGENT LIABILITIES

- (i) On September 24, 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 May 12, 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 June 17, 2015 and recorded such insurance claims as other net income during the year ended December 31, 2015. The Insurer counter appealed against such tribunal to the Supreme People's Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People's Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.

- (ii) In addition to the litigations related to the Dissenting Payments as disclosed in Note 21, Shenhai Industrial received arbitration notice that on October 8, 2018 it 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 34(i) above. The domestic law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB21,000,000 and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. As of the date of this report, the arbitration has been suspended due to that the arbitrator considered the case is linked to the Group's appeal against the law firm commenced on January 8, 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.

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

| | Year ended December 31, | | |
|---|-------------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Short-term employee benefits..... | 25,369 | 23,202 | 22,047 |
| Contributions to defined contribution retirement plans..... | 1,581 | 1,211 | 1,330 |
| | <u>26,950</u> | <u>24,413</u> | <u>23,377</u> |

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Guarantees issued by related parties

| | At December 31, | | |
|---|-----------------|-----------|-----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Guarantees to banks for granting banking facilities | 1,247,826 | 1,232,415 | 1,231,575 |

Certain bank facilities granted to the Group in Note 23 were guaranteed by Mr. Lu Ruibo, the ultimate controlling shareholder of the Company, Ms. Wang Hui, Ina, the executive director, at December 31, 2016, 2017 and 2018.

| | At December 31, | | |
|---------------------|-----------------|-----------|-----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Lu Ruibo | 1,247,826 | 1,232,415 | 1,231,575 |
| Wang Hui, Ina | 558,374 | — | — |

(c) Significant related party transactions

During the years ended December 31, 2016, 2017 and 2018, the Group had following transactions with Impress Impeller, the former joint venture:

| | Year ended December 31, | | |
|---|-------------------------|--------------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Rental income | 1,607 | 1,184 | — |
| Utilities expenses paid on behalf | <u>1,772</u> | <u>1,947</u> | <u>—</u> |

(d) Significant related party balances

As of the end of the reporting period, the Group had following receivables due from Impress Impeller, the former joint venture:

| | At December 31, | | |
|-------------------------|-----------------|----------|----------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Other receivables | <u>9,978</u> | <u>—</u> | <u>—</u> |

The receivables due from the joint venture was included in other receivables, deposits and prepayment in Note 21. They are unsecured, interest free and have no fixed repayment terms.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below:

(a) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2016, 2017 and 2018, 6%, 10% and 9%, respectively, of trade receivables were due from the Group's largest customer and 34%, 36% and 39%, respectively, of trade receivables were due from the Group's five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 15 to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

| At 31 December 2016 | | | |
|--|---------------|----------------|----------------|
| | Expected loss | Gross carrying | Loss allowance |
| | rate | amount | |
| | % | HK\$'000 | |
| Current (not past due)..... | 0.3% | 450,139 | 1,241 |
| Less than 1 month past due | 2.4% | 50,270 | 1,206 |
| 1 to 3 months past due | 6.1% | 16,014 | 981 |
| More than 3 months but less than 12 months past due | 6.6% | 7,139 | 470 |
| More than 12 months past due | 73.9% | 19,939 | 14,734 |
| | | <u>543,501</u> | <u>18,632</u> |

| At 31 December 2017 | | | |
|--|---------------|----------------|----------------|
| | Expected loss | Gross carrying | Loss allowance |
| | rate | amount | |
| | % | HK\$'000 | |
| Current (not past due)..... | 0.2% | 570,568 | 1,402 |
| Less than 1 month past due | 2.0% | 74,930 | 1,521 |
| 1 to 3 months past due | 4.8% | 34,835 | 1,667 |
| More than 3 months but less than 12 months past due | 7.0% | 16,152 | 1,128 |
| More than 12 months past due | 71.9% | 15,537 | 11,171 |
| | | <u>712,022</u> | <u>16,889</u> |

| At 31 December 2018 | | | |
|--|---------------|----------------|----------------|
| | Expected loss | Gross carrying | Loss allowance |
| | rate | amount | |
| | % | HK\$'000 | |
| Current (not past due)..... | 0.4% | 670,291 | 2,484 |
| Less than 1 month past due | 3.1% | 116,133 | 3,603 |
| 1 to 3 months past due | 6.8% | 36,866 | 2,489 |
| More than 3 months but less than 12 months past due | 14.8% | 17,013 | 2,515 |
| More than 12 months past due | 78.8% | 14,541 | 11,457 |
| | | <u>854,844</u> | <u>22,548</u> |

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance in respect of trade receivables during the Relevant Periods is as follows:

| | As at December 31, | | |
|---|--------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At the beginning of the year | 14,656 | 18,632 | 16,889 |
| Impairment loss recognized | 15,906 | 1,450 | 11,591 |
| Uncollectible amounts written off | (11,647) | (4,502) | (5,099) |
| Exchange adjustment | (283) | 1,309 | (833) |
| At the end of the year | <u>18,632</u> | <u>16,889</u> | <u>22,548</u> |

The following significant changes in the gross carrying amounts of trade receivables contributed to the change in the loss allowance during the years ended December 31, 2016, 2017 and 2018:

- origination of new trade receivables net of those settled resulted in an increase of HK\$263,000, an increase of HK\$161,000, and an increase of HK\$1,025,000 in loss allowance, respectively;
- change in past due trade receivables resulted in an increase in loss allowance of HK\$15,360,000, HK\$2,598,000 and HK\$9,733,000, respectively; and
- a write-off of trade receivables with a gross carrying amount of HK\$11,647,000, HK\$4,502,000 and HK\$5,099,000 resulted in a decrease in loss allowance, respectively.

(b) **Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with leading covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

| At December 31, 2016 | | | | | |
|---|----------------------------------|---|--|------------------|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Carrying amount at December 31, 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loans | 835,221 | 808,781 | 259,132 | 1,903,134 | 1,818,426 |
| Trade payables | 204,792 | — | — | 204,792 | 204,792 |
| Other payables and accruals.... | 244,490 | — | — | 244,490 | 244,490 |
| Obligations under finance leases | 36,557 | 21,038 | 39,200 | 96,795 | 90,820 |
| | <u>1,321,060</u> | <u>829,819</u> | <u>298,332</u> | <u>2,449,211</u> | <u>2,358,528</u> |

| At December 31, 2017 | | | | | |
|---|----------------------------------|---|--|------------------|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Carrying amount at December 31, 2017 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loans | 1,062,963 | 591,169 | 242,022 | 1,896,154 | 1,796,766 |
| Trade payables | 306,863 | — | — | 306,863 | 306,863 |
| Other payables and accruals.... | 313,867 | — | — | 313,867 | 313,867 |
| Obligations under finance leases | 29,897 | 30,805 | 43,147 | 103,849 | 97,095 |
| | <u>1,713,590</u> | <u>621,974</u> | <u>285,169</u> | <u>2,620,733</u> | <u>2,514,591</u> |

| At December 31, 2018 | | | | | |
|---|----------------------------------|---|--|------------------|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Carrying amount at December 31, 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loans | 1,166,946 | 464,158 | 274,216 | 1,905,320 | 1,794,297 |
| Trade payables | 388,193 | — | — | 388,193 | 388,193 |
| Other payables and accruals.... | 309,960 | — | — | 309,960 | 309,960 |
| Obligations under finance leases | 60,716 | 60,642 | 21,347 | 142,705 | 136,019 |
| | <u>1,925,815</u> | <u>524,800</u> | <u>295,563</u> | <u>2,746,178</u> | <u>2,628,469</u> |

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. For this purpose, the Group defines "total borrowings" as being interest-bearing financial liabilities less interest bearing investments (excluding cash held for short term working capital purposes). The Group's interest rate profile as monitored by management is set out in (i) below:

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's total borrowings (as defined above) as at the end of each reporting period:

| | At December 31, | | | | | |
|--|----------------------------|-----------|----------------------------|-----------|----------------------------|-----------|
| | 2016 | | 2017 | | 2018 | |
| | Effective Interest rate | Amount | Effective Interest rate | Amount | Effective Interest rate | Amount |
| | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 |
| Fixed rate borrowings: | | | | | | |
| Bank loans | 4.87% | 509,916 | 4.62% | 453,550 | 4.51% | 394,131 |
| Obligations under finance leases | 4.53% | 90,820 | 3.83% | 97,095 | 4.64% | 136,019 |
| | | 600,736 | | 550,645 | | 530,150 |
| Variable rate borrowings: | | | | | | |
| Bank loans | 2.28% | 1,308,510 | 3.19% | 1,343,216 | 4.18% | 1,400,166 |
| Total borrowings ... | | 1,909,246 | | 1,893,861 | | 1,930,316 |
| <i>Fixed rate borrowings as a percentage of total borrowings..</i> | | 31.5% | | 29.1% | | 27.5% |

(ii) *Sensitivity analysis*

At December 31, 2016, 2017 and 2018, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased or increased the Group's profit after tax and retained profits by approximately HK\$10,856,000, HK\$11,014,000 and HK\$11,524,290 respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to floating rate non-derivative instruments held by the Group, which expose the Group to cash flow interest rate risk. The impact on the Group's profit after tax (and retained profits) is estimated as an annualized impact on interest expense of such a change in interest rates. Fixed rate financial instruments are excluded for the above analysis. The analysis is performed on the same basis for the years ended December 31, 2016, 2017 and 2018.

(d) *Currency risk*

The Group is exposed to currency risk primarily through sales and borrowings which give rise to receivables, payables, cash balances and bank loans that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US\$, EUR, RMB and TL.

(i) *Exposure to currency risk*

The following table details the Group's exposure as at December 31, 2016, 2017 and 2018 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in HK\$ translated using the spot rate of the end of each reporting period. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than HK\$ into the Group's presentation currency are excluded.

| | At December 31, | | |
|--|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| <i>US\$</i> | | | |
| Trade and bills receivables..... | 234,296 | 245,492 | 346,082 |
| Prepayments, deposits and other receivables | 7,406 | 13,710 | 14,703 |
| Cash and cash equivalents | 30,991 | 18,042 | 29,895 |
| Trade payables | (9,215) | (58,712) | (32,303) |
| Other payables and accruals | (11,273) | (2,360) | (2,972) |
| Bank loans..... | <u>(980,443)</u> | <u>(884,707)</u> | <u>(582,773)</u> |
| Net exposure arising from recognized assets and liabilities | <u>(728,238)</u> | <u>(668,535)</u> | <u>(227,368)</u> |

| | At December 31, | | |
|--|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| <i>EUR</i> | | | |
| Trade and bills receivables..... | 107,173 | 74,914 | 129,975 |
| Prepayments, deposits and other receivables | 13,011 | 13,680 | 1,199 |
| Cash and cash equivalents | 6,339 | 9,204 | 28 |
| Trade payables | (781) | (8,287) | (21,667) |
| Other payables and accruals | (4,811) | (7,063) | (1,189) |
| Bank loans..... | <u>(271,294)</u> | <u>(197,001)</u> | <u>(113,227)</u> |
| Net exposure arising from recognized assets and liabilities | <u>(150,363)</u> | <u>(114,553)</u> | <u>(4,881)</u> |

| | At December 31, | | |
|--|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| <i>RMB</i> | | | |
| Prepayments, deposits and other receivables | 196,801 | 210,572 | 94,712 |
| Trade payables | <u>(220,067)</u> | <u>(340,694)</u> | <u>(430,919)</u> |
| Net exposure arising from recognized assets and liabilities | <u>(23,266)</u> | <u>(130,122)</u> | <u>(336,207)</u> |

| | At December 31, | | |
|--|-----------------|----------------|-----------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| <i>TL</i> | | | |
| Trade and bills receivables..... | 6,124 | 6,498 | 7,211 |
| Prepayments, deposits and other receivables | 6,870 | 7,454 | 40,576 |
| Cash and cash equivalents | 3,108 | 19,313 | 7,364 |
| Trade payables | (16,151) | (31,463) | (9,988) |
| Other payables and accruals | <u>(4,852)</u> | <u>(3,389)</u> | <u>(11,034)</u> |
| Net exposure arising from recognized assets and liabilities | <u>(4,901)</u> | <u>(1,587)</u> | <u>34,129</u> |

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

| | 2016 | | 2017 | | 2018 | |
|-----------|--|---|--|---|--|---|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits |
| | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 |
| US\$..... | 5% | (30,081) | 5% | (27,887) | 5% | (9,598) |
| | (5%) | 30,081 | (5%) | 27,887 | (5%) | 9,598 |
| EUR | 5% | (6,211) | 5% | (4,779) | 5% | (206) |
| | (5%) | 6,211 | (5%) | 4,779 | (5%) | 206 |
| RMB..... | 5% | (961) | 5% | (5,428) | 5% | (14,153) |
| | (5%) | 961 | (5%) | 5,428 | (5%) | 14,153 |
| TL..... | 5% | (196) | 5% | (64) | 5% | 1,331 |
| | (5%) | 196 | (5%) | 64 | (5%) | (1,331) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at December 31, 2016, 2017 and 2018, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not HK\$. The analysis is performed on the same basis for the years ended December 31, 2016, 2017 and 2018.

(e) *Fair value measurement*

The three levels of the fair value hierarchy as defined in IFRS 13, *Fair value measurement* are defined as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Analysis on fair value measurement of derivative financial instruments as at December 31, 2016, 2017 and 2018 are as follows:

| | Fair value at December 31, 2016 | Fair value measurement at December 31, 2016 categorized into | | |
|--|---------------------------------------|---|---------|---------|
| | HK\$'000 | Level 1 | Level 2 | Level 3 |
| Recurring fair value measurement .. | | | | |
| Other financial asset: | | | | |
| — Unlisted equity securities..... | 2,471 | — | — | 2,471 |
| | | | | |
| | Fair value at December 31, 2017 | Fair value measurement at December 31, 2017 categorized into | | |
| | HK\$'000 | Level 1 | Level 2 | Level 3 |
| Recurring fair value measurement .. | | | | |
| Other financial asset: | | | | |
| — Unlisted equity securities..... | 2,645 | — | — | 2,645 |
| | | | | |
| | Fair value at December 31, 2018 | Fair value measurement at December 31, 2018 categorized into | | |
| | HK\$'000 | Level 1 | Level 2 | Level 3 |
| Recurring fair value measurement .. | | | | |
| Other financial asset: | | | | |
| — Unlisted equity securities..... | 2,283 | — | — | 2,283 |

The fair value of unlisted equity instruments is determined using the price/book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. No unrealized gain or loss in respect of unlisted equity securities were recognized in other comprehensive income during the Relevant Periods. Further disclosures in report of this asset is set out in Note 18.

Except for unlisted equity securities, all financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at December 31, 2016, 2017 and 2018.

37 BUSINESS COMBINATION

On August 23, 2017, the Group, through its wholly owned subsidiary, Impro Industries (Yixing) Co., Ltd., acquired 16% of the equity interests in its former joint venture, Impross Impeller, which is principally engaged in manufacturing of impellers and machinery parts, through capital injection at a cash consideration of RMB11,189,000 (equivalent to approximately HK\$13,275,000). Upon the completion of the acquisition, the Group has the right to appoint the majority of the Directors and to unilaterally direct the operating activities of Impross Impeller by controlling the Board of Directors. As at December 31, 2018, the Group owns 67% of the equity interest in Impross Impeller.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

| | <u>Fair value on acquisition</u> |
|---|----------------------------------|
| | HK\$'000 |
| Property, plant and equipment (Note 12) | 5,486 |
| Intangible assets (Note 13) | 24,857 |
| Deferred tax assets (Note 27(b)) | 2,918 |
| Inventories..... | 10,981 |
| Trade receivables | 21,901 |
| Prepayments, deposits and other receivables | 1,342 |
| Cash and cash equivalents | 16,046 |
| Deferred tax liabilities (Note 27(b))..... | (6,215) |
| Trade payables | (10,014) |
| Other payables and accruals | <u>(26,647)</u> |
| Identified net assets..... | <u>40,655</u> |

| | <u>Fair value on acquisition</u> |
|---|----------------------------------|
| | HK\$'000 |
| Less: | |
| Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets | (13,416) |
| Total consideration | <u>27,239</u> |
| Satisfied by: | |
| Cash consideration paid through capital injection | 13,275 |
| Carrying amount of interest in Impross Impeller prior to business combination | 7,731 |
| Gain arising from business combination | <u>6,233</u> |
| Fair value of pre-existing 51% of equity interest in Impross Impeller | 13,964 |
| Total consideration | <u>27,239</u> |
| Analysis of the net cash inflow in respect of business combination: | |
| Cash and cash equivalents acquired | 16,046 |
| Less: Cash consideration paid through capital injection | <u>(13,275)</u> |
| Net cash inflow on acquisition | <u>2,771</u> |

The fair value of net identifiable assets of the acquiree is determined by the Directors with reference to the valuation performed by independent valuation firm on the acquisition date.

From the date of acquisition to December 31, 2017, Impross Impeller contributed revenue of HK\$19,688,000 and net profit of HK\$435,000.

The consolidated revenue and profit for the year ended December 31, 2017 would have been HK\$47,247,000 and HK\$1,287,000, respectively had the acquisition been completed as at January 1, 2017.

38 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2016, 2017 and 2018, the directors consider the immediate parent of the Company is Impro Development Limited, a company incorporated in British Virgin Islands. The ultimate controlling party is Mr. Lu Ruibo, Chairman of the Group. Impro Development Limited does not produce financial statements available for public use.

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to date of issue of the Historical Financial Information, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2018 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group.

| | <i>Effective for accounting periods beginning on or after</i> |
|--|---|
| IFRS 16, <i>Leases</i> | January 1, 2019 |
| IFRIC 23, <i>Uncertainty over income tax treatments</i> | January 1, 2019 |
| Amendments to IAS 19, <i>Plan amendment, curtailment or settlement</i> | January 1, 2019 |
| Amendments to IFRS 9, <i>Prepayment features with negative compensation</i> | January 1, 2019 |
| Amendments to IAS 28, <i>Long-term interests in associates and joint ventures</i> | January 1, 2019 |
| Annual Improvements to IFRSs 2015—2017 Cycle | January 1, 2019 |
| Revised Conceptual Framework for Financial Reporting..... | January 1, 2020 |
| Amendments to IFRS 3, <i>Definition of a business</i> | January 1, 2020 |
| Amendments to IAS 1 and IAS 8, <i>Definition of material</i> | January 1, 2020 |
| IFRS 17, <i>Insurance contracts</i> | January 1, 2021 |
| Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i> | To be determined |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's consolidated financial statements for the year ending December 31, 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16 Leases

As disclosed in Note 2(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS16 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019 and will not restate the comparative information. As disclosed in Note 33(b), at December 31, 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$30,178,000 for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK\$22,817,000 and HK\$21,734,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material.

40 NON-ADJUSTING POST BALANCE SHEET DATE EVENTS

- (a) Pursuant to the board resolution on March 29, 2019, the directors declared a final dividend of HK\$80.1 per share. Further details are disclosed in Note 32.
- (b) On March 29, 2019, Impro Development Limited, the immediate parent of the Company incorporated in British Virgin Islands, and GT Cedar Capital (Hong Kong) Limited, an exempted company incorporated in Hong Kong, entered into share purchase agreement with Colnv Propel Company Limited, a non-controlling shareholder of the Company, and acquired 46,713 and 81,162 ordinary shares in the share capital of the Company, respectively.
- (c) In January 2019, Impro Industries Mexico, S. de R.L. de C.V., the Group's wholly-owned subsidiary incorporated in Mexico, entered into an agreement with a third party to acquire two parcels of land in San Luis Potosi, Mexico at a total cash consideration of US\$7,734,000 (equivalent to HK\$60,581,000). The land acquisition was completed on April 4, 2019.
- (d) Pursuant to the shareholders' resolution passed on June 14, 2019, conditional further on the share premium account of the Company being credited as a result of the Global Offering, the directors of the Company are authorized to allot and issue a total of 1,498,722,088 ordinary shares credited as fully paid at par to the existing shareholders of the Company in proportion to their respective shareholdings by way of capitalization of the sum of HK\$149,872,208.8 standing to the credit of the share premium of the Company. The Capitalization Issue will not become effective until the completion of the Global Offering.

Further details related to this matter are set out in the section headed "Our History and Development and Corporate Structure" included in the Prospectus.

41 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to December 31, 2018.

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set forth in Appendix I to this Prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For illustrative purposes only, the following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to equity shareholders of our Company as of December 31, 2018 and is based on the audited consolidated net assets derived from the audited financial information of our Group as of December 31, 2018 as included in the Accountants' Report as set out in Appendix I to the Prospectus.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of December 31, 2018 or at any future date.

| | Audited consolidated net tangible assets attributable to the equity shareholders of our Company as of December 31, 2018 ⁽¹⁾ | Estimated net proceeds from this Global Offering ⁽²⁾ | Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of our Company ⁽³⁾ | Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of our Company per Share ⁽⁴⁾ |
|--|--|--|--|---|
| | (in millions of HK\$) | | | (HK\$) |
| Based on an Offer Price of HK\$2.80 per Share | 2,126.3 | 875.8 | 3,002.1 | 1.64 |
| Based on an Offer Price of HK\$3.30 per Share | 2,126.3 | 1,035.7 | 3,162.0 | 1.72 |

Notes:

- (1) The audited consolidated net tangible assets of our Company attributable to equity shareholders of our Company as of December 31, 2018 have been calculated based on the audited consolidated total equity attributable to equity shareholders of our Company as of December 31, 2018 of HK\$2,669.2 million less intangible assets and goodwill as of December 31, 2018 of HK\$85.5 million and HK\$457.3 million, respectively, as set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from this Global Offering are based on the indicative offer prices of HK\$2.80 and HK\$3.30 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Company (excluding listing expenses which have been accounted for prior to December 31, 2018) Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds assumes the full payment of discretionary incentive fee up to 1% of the Offer Price multiplied by the total number of Offer Shares. The pro forma adjusted consolidated net tangible assets and the pro forma consolidated net tangible asset per Share would be increased if we decide not to pay such incentive fee.
- (3) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company to reflect our trading results or other transactions entered into subsequent to December 31, 2018, including but not limited to the dividends declaration on March 29, 2019. Had such dividends been declared on December 31, 2018, our unaudited pro forma adjusted consolidated net tangible assets would have been decreased by approximately HK\$102.4 million, and our unaudited pro forma adjusted consolidated net tangible assets per Share would have been decreased approximately by HK\$0.06.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share is calculated based on 1,833,300,000 shares in issue immediately assuming the Capitalization Issue and this Global Offering have been completed on December 31, 2018 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF IMPRO PRECISION INDUSTRIES LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Impro Precision Industries Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at December 31, 2018 and related notes as set out in Part A of Appendix II to the prospectus dated June 18, 2019 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at December 31, 2018 as if the Global Offering had taken place at December 31, 2018. As part of this process, information about the Group's financial position as at December 31, 2018 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at December 31, 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

June 18, 2019

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 8, 2008 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Memorandum of Association (the “**Memorandum**”) and its Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 15, 2018 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions

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of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) **Alteration of capital**

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

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The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

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(vi) ***Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) ***Calls on shares and forfeiture of shares***

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

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(b) **Directors**

(i) ***Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

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(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) ***Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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(iii) ***Power to dispose of the assets of the Company or any of its subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) ***Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) ***Remuneration***

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following

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paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) ***Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) ***Loans and provision of security for loans to Directors***

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) ***Disclosure of interests in contracts with the Company or any of its subsidiaries***

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles. Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

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(ii) ***Voting rights and right to demand a poll***

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) ***Annual general meetings and extraordinary general meetings***

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange. Extraordinary general meetings may be convened

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on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) ***Notices of meetings and business to be conducted***

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;

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- (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (v) ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

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The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

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The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) **Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) **Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

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- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

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(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account.” At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to

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any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 22 January, 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

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(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

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(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official

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liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Cayman Islands Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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4. GENERAL

Conyers Dill & Pearman, our Company's legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for public inspection in Hong Kong as referred to in the paragraphs under "Documents available for public inspection in Hong Kong" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands on January 8, 2008. The registered office of our Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our Company was registered as a non-Hong Kong company under Part XI of the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on March 6, 2008. The principal place of business of our Company in Hong Kong is situated at Unit 1008, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. Mr. LU Ruibo of Flat No. 04, 35th Floor, Apartment Tower on the Western Side, Convention Plaza, No.1, Harbour Road, Hong Kong, has been appointed as the authorized representative of our Company for acceptance of service of process on behalf of our Company and resides in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of the Memorandum and the Articles is set out in Appendix III to this prospectus. Appendix III to this prospectus also sets out certain provisions of the Cayman Companies Law.

2. Changes in share capital of our Company

The following changes in the share capital of our Company have taken place since the date of incorporation up to the date of this prospectus:

- (a) As of the date of incorporation, January 8, 2008, the authorized share capital of our Company was HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each. One fully-paid Share was issued to Codan Trust Company (Cayman) Limited (currently known as Conyers Trust Company (Cayman) Limited) and transferred to Impro Development. In addition, 99 Shares were also allotted and issued to Impro Development fully-paid.
- (b) On January 16, 2008, pursuant to the resolution of the sole Director, our Company allotted and issued 936,900 Shares to Impro Development in exchange for all issued shares of Impro International.
- (c) On January 21, 2008, the authorized share capital of our Company was increased to HK\$760,000 divided into 3,800,000 Shares and 3,800,000 Series A Preference Shares with no increase in the issued Shares.
- (d) On January 21, 2008, our Company allotted and issued to Impro Development 1,469 Shares for par value.

- (e) On January 21, 2008, pursuant to the a subscription agreement entered into with Lehman Brothers Commercial Corporation Asia Limited (“**Lehman**”), our Company allotted and issued 61,531 Series A Preference Shares to Lehman for cash consideration of US\$20,000,000.
- (f) On June 10, 2008, pursuant to the a subscription agreement entered into with DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbH (“**DEG**”), our Company allotted and issued 28,292 Shares to DEG for cash consideration of US\$10,000,000.
- (g) On September 21, 2009, the 28,292 Shares allotted and issued to DEG were repurchased and cancelled in consideration of 28,292 Series A Preference Shares allotted and issued to DEG.
- (h) On June 17, 2011, all the Series A Preference Shares held by Lehman and DEG were converted into 61,531 Shares and 28,292 Shares, respectively.
- (i) On June 17, 2011, Impro Development transferred 10,858 Shares and 4,993 Shares to Lehman and DEG, respectively, pursuant to conversion adjustment set out in the the subscription agreements entered into with Lehman and DEG, respectively.
- (j) On June 17, 2011, the 3,800,000 authorized but unissued Series A Preference Shares were redesignated and reclassified as 3,800,000 ordinary Shares and the authorized share capital of our Company was increased by HK\$1,349,240,000 by the creation of 13,492,400,000 Shares to HK\$1,350,000,000 divided into 13,500,000,000 Shares.
- (k) On July 29, 2011, our Company repurchased 24,287 Shares from Lehman for cash consideration of US\$10,000,000 and 11,667 Shares from DEG for cash consideration of US\$5,000,000, and the number of Shares in issue was thereby reduced from 1,028,292 to 992,338.
- (l) On December 28, 2011, our Company repurchased 21,618 Shares from DEG for US\$9,626,020.
- (m) On December 29, 2011, our Company repurchased 48,102 Shares from Lehman for US\$20,574,364.
- (n) On December 29, 2011, our Company allotted and issued to Baring 329,916 Shares for US\$65,000,000.
- (o) On December 29, 2011, our Company allotted and issued to GE Capital 25,378 Shares for US\$5,000,000.

- (p) On November 4, 2015, the transfer of 25,378 Shares between GE Capital as the seller and ASF Radio as the purchaser was duly registered in the register of members of our Company.
- (q) On July 24, 2018, the transfer of 127,875 Shares between Baring as the seller and Ping An SPV as the purchaser was duly registered in the register of members of our Company.
- (r) On March 29, 2019, the transfer of 127,875 Shares from Ping An SPV as the seller and GT Cedar (as to 81,162 Shares) and Impro Development (as to 46,713 Shares) as the purchasers was duly registered in the register of members of our Company.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued without taking into consideration our Shares that may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme, the authorized share capital of our Company will be HK\$1,350,000,000 divided into 13,500,000,000 Shares and the issued share capital of our Company will be HK\$183,330,000 divided into 1,833,300,000 Shares, fully-paid or credited as fully-paid, and 11,666,700,000 Shares will remain unissued.

Other than the issue of Shares under the Global Offering and pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme, our Directors have no present intention to issue any part of the authorized but unissued share capital of our Company and, without the prior approval of our Shareholders in a general meeting, no issue of Shares will be made which would effectively alter the control of our Company within twelve months from the Listing Date.

Save as disclosed herein and as mentioned in the following paragraphs under “4. Resolutions of our Shareholders,” there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in the share capital of the subsidiaries of our Company

A list of our Company’s subsidiaries is set out in the accountants’ report, the text of which is set out in Appendix I to this prospectus. The following alterations in the share capital of our Company’s subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) *Impro Holdings*

Impro Holdings was incorporated in BVI on December 22, 2016 with the authority to issue up to 50,000 shares with the par value of US\$1 each, and has been wholly owned by our Company with one share in issue at US\$1 since May 29, 2017.

On June 30, 2017, the issued share capital of Impro Holdings was increased from US\$1 to US\$128,206 by the allotment and issue of additional 128,205 shares to our Company in consideration of our Company’s transfer of 1,000,000 shares in Impro International to Impro Holdings.

As of the Latest Practicable Date, Impro Holdings has the total issued share capital of US\$128,206 comprising 128,206 shares, all of which were held by our Company. Impro Holdings is a direct wholly-owned subsidiary of our Company.

(b) *Impro International*

On June 30, 2017, our Company transferred to Impro Holdings 1,000,000 shares in Impro International, representing the entire issued share capital of Impro International, in consideration of receiving the allotment of the 128,205 new shares of Impro Holdings. Impro International is an indirect wholly-owned subsidiary of our Company.

(c) *Impross Impeller*

In August 2017, the registered capital of Impross Impeller was increased from US\$2.0 million to US\$2,969,696.97. Impro Yixing subscribed for the increased registered capital of Impross Impeller by way of capital injection. The amount paid by Impro Yixing was RMB equivalent amount of US\$969,696.97. Following the capital increase, Impross Impeller is owned as to 67.0% by Impro Yixing and as to 33.0% by Ross Casting, and is an indirect non-wholly owned subsidiary of Impro Yixing.

(d) *Impro Yixing*

On December 21, 2018, the registered capital of Impro Yixing was increased from US\$23,800,000 to US\$53,800,095, of which US\$43,800,095 has been paid-in.

(e) *Impro Industries Mexico*

On January 24, 2019, the issued share capital of Impro Industries Mexico was increased from MEX\$16,543,680 to MEX\$31,805,360. On April 30, 2019, the issued share capital of Impro Industries Mexico has been further increased to MEX\$160,000,000.

(f) *Impro Aerospace Mexico*

On April 30, 2019, the issued share capital of Impro Aerospace Mexico has been increased from MEX\$3,000 to MEX\$21,141,590.

Save as disclosed in this paragraph and this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Resolutions of our Shareholders

Our Shareholders passed various resolutions on January 21, 2008, September 21, 2009, June 17, 2011, July 29, 2011, October 8, 2015, June 15, 2018 (being the date of the Extraordinary General Meeting), and March 29, 2019 relating to the share capital of our Company. The following is a summary of these resolutions.

(a) *Written resolutions of our sole Shareholder dated January 21, 2008*

Pursuant to the written resolutions passed by our sole Shareholder on January 21, 2008, it was resolved that (i) new articles of association were adopted for the purpose of, among

others, issuing the Series A Preference Shares; (ii) the warrants were approved to be issued to Lehman by our Company; and (iii) the authorized share capital of our Company was increased from HK\$380,000 divided into 3,800,000 Shares to HK\$760,000 divided into 3,800,000 Shares and 3,800,000 Series A Preference Shares.

(b) *Written resolutions of our Shareholders dated September 21, 2009*

Pursuant to the written resolutions passed by our Shareholders on September 21, 2009, it was resolved that (i) the allotment and issue of 28,292 Series A Preference Shares to DEG and (ii) the repurchase by our Company of 28,292 Shares held by DEG for an aggregate consideration of HK\$2,829.2 to be derived from the proceeds of the fresh issue by our Company of 28,292 Series A Preference Shares.

(c) *Written resolutions of our Shareholders dated June 17, 2011*

Pursuant to the written resolutions passed by our Shareholders on June 17, 2011, it was resolved that all the Series A Preference Shares held by Lehman and DEG were converted into same number of Shares which was achieved by (i) the allotment and issue of 61,531 Shares at par to Lehman and the allotment and issue of 28,292 Shares at par to DEG on the conversion date and (ii) the repurchase by our Company of an aggregate of 89,823 Series A Preference Shares held by Lehman and DEG for an aggregate consideration of HK\$8,982.3 to be derived from the proceeds of the fresh issue by our Company of 61,531 Shares to Lehman and 28,292 Shares to DEG on the conversion date.

In addition, on the same date, it was resolved by our Shareholders, among other things, that:

- (a) the new articles of association were adopted and approved for the purpose of the proposed public offering in 2011;
- (b) the 3,800,000 authorized but unissued Series A Preference Shares were redesigned and reclassified as 3,800,000 Shares and that the authorized share capital of our Company became HK\$760,000 divided into 7,600,000 Shares of a par value of HK\$0.10 each after the reclassification of authorized capital; and
- (c) immediately after the reclassification of authorized capital, the authorized share capital of our Company was further increased from HK\$760,000 to HK\$1,350,000,000 divided into 13,500,000,000 Shares of HK\$0.10 each by the creation of 13,492,400,000 Shares, which shall rank pari passu in all respects with the existing Shares in issue.

(d) *Written resolutions of our Shareholders dated July 29, 2011*

Pursuant to the written resolutions passed by our Shareholders on July 29, 2011, it was resolved that our Company repurchased 24,287 Shares from Lehman for cash consideration of US\$10,000,000 and 11,667 Shares from DEG for cash consideration of US\$5,000,000, the aggregate amount of the repurchase price would be paid out of the capital and/or share premium and/or distributable profit of our Company.

(e) ***Written resolutions of our Shareholders dated October 8, 2015***

Pursuant to the written resolutions passed by our Shareholders on October 8, 2015, our Company approved the transfer of 25,378 Shares from GE Capital to ASF Radio.

(f) ***Resolutions passed by our Shareholders at the Extraordinary General Meeting***

Pursuant to resolutions passed by our Shareholders at the Extraordinary General Meeting:

- (a) the Articles were adopted and approved conditional upon and with effect from the Listing;
- (b) conditional upon both (i) the Listing Committee granting listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued or sold pursuant to the Global Offering, the Capitalization Issue, the Over-allotment Option and our Shares that may be issued upon the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with the terms of such agreements or otherwise:
 - (i) the Global Offering and the grant of the Over-allotment Option were approved and our Directors were authorized to (a) implement the Listing, the Global Offering and the Over-allotment Option; (b) to allot and issue the Offer Shares pursuant to the Global Offering and the Over-allotment Option and such number of Shares as may be required to be allotted and issued on and subject to the terms and conditions stated in this prospectus and the relevant Application Forms; and (c) to do all things and execute all documents in connection with or incidental to the Listing, the Global Offering and the Over-allotment Option subject to such modifications, amendments, variations or otherwise (if any) as may be made by our Board (or any committee of our Board thereof established by our Board) in its absolute discretion, and our Board or any such committee of our Board or any one Director was authorised and directed to effect such modifications, amendments variations or otherwise as necessary or appropriate;
 - (ii) conditional further on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorized to capitalize an amount of HK\$149,872,208.8 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 1,498,722,088 Shares for allotment and issue to the persons whose names appear on the principal register of members of our Company in the Cayman Islands at the close of business on June 15, 2018 (or such other date as our Director may direct) in proportion (as nearly as possible without involving

fractions so that no fraction of a Share shall be allotted and issued) to their then existing Shareholdings in our Company, each ranking equally in all respects with the then existing Shares in issue, and our Directors were authorised to give effect to such capitalization and distributions;

- (iii) the rules of the Pre-IPO Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (a) administer the Pre-IPO Share Option Scheme; (b) modify/amend the Pre-IPO Share Option Scheme from time to time as requested by the Hong Kong Stock Exchange; (c) grant options to subscribe for Shares under the Pre-IPO Share Option Scheme up to the limits referred to in the Pre-IPO Share Option Scheme; (d) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Pre-IPO Share Option Scheme; (e) make application at the appropriate time or times to the Hong Kong Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the Pre-IPO Share Options; and (f) take all such actions as they consider necessary;
- (iv) the rules of the Post-IPO Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (a) administer the Post-IPO Share Option Scheme; (b) modify/amend the Post-IPO Share Option Scheme from time to time as requested by the Hong Kong Stock Exchange; (c) grant options to subscribe for Shares under the Post-IPO Share Option Scheme up to the limits referred to in the Post-IPO Share Option Scheme; (d) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Post-IPO Share Option Scheme; (e) make application at the appropriate time or times to the Hong Kong Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Post-IPO Share Option Scheme; and (f) take all such actions as they consider necessary;
- (v) a general unconditional mandate was given to our Directors to allot, issue, and otherwise deal with our Shares or convertible securities and to make or grant offers, agreements and options which would or might require the exercise of such powers (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue, the exercise of any subscription rights which may be granted under any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for our Shares under any options and warrants or a special authority granted by our Shareholders) with an aggregate of not exceeding 20% of the total number of our Shares in issue immediately following

completion of the Global Offering and the Capitalization Issue, excluding our Shares which may be issued upon the exercise of the Over-allotment Option and the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme;

- (vi) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of our Company to repurchase our Shares with a total number of not more than 10% of total number of Shares in issue immediately following completion of Global Offering and the Capitalization Issue, excluding Shares which may be issued upon the exercise of the Over-allotment Option and the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme; and
- (vii) a general unconditional mandate as mentioned in paragraph (iv) above was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of the number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above provided that the extended number of Shares shall not exceed 10% of the total number of Shares immediately following completion of the Global Offering and the Capitalization Issue, excluding any Shares which may be issued upon the exercise of the Over-allotment Option and the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme.

Each of the general mandates referred to in paragraphs (v), (vi), and (vii) above will remain in effect until the earlier of (a) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or (b) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(g) ***Written resolutions passed by our Shareholders dated March 29, 2019***

Pursuant to the written resolutions passed by our Shareholders on March 29, 2019, it was resolved that:

- (i) subject to (x) such conditions set forth in resolution (b) (which include, but without limitation to, the Global Offering satisfying the minimum pre-money valuation requirement of US\$375 million) of the resolutions passed at the Extraordinary General Meeting (the “**EGM Resolutions**”) and (y) completion of the transfer of 46,713 Shares by Ping An SPV to Impro Development and the transfer of 81,162 Shares by Ping An SPV to GT Cedar, the Global Offering and the grant of the Over-allotment Option and the Listing on or before January 31, 2020 be approved and that the Directors’ full authority to take any further action or make any decision on the implementation of the Global Offering and the Listing (including for the avoidance of doubt any modification, amendment and variation to the timetable and

the offering structure of the Global Offering (including the number of Shares to be offered for subscription or sale under the Global Offering)) and other related matters as more particularly described in the EGM Resolutions were confirmed and approved;

- (ii) resolutions set forth in paragraph (i) above constitute valid and legally binding approval given by all Shareholders on the Global Offering;
- (iii) the EGM Resolutions (subject to the modifications as a result of any change in the number of the Shares under the Global Offering and the timetable for the Global Offering and the Listing) constitute valid and legally binding decisions of the Shareholders; and
- (iv) any executive Director is authorized to take all necessary steps and to do all such acts and things and sign all documents and deeds as he or she may consider necessary, desirable or expedient to implement the Global Offering and the Listing (including for the avoidance of doubt any modification, amendment and variation to the timetable and the offering structure of the Global Offering (including the number of Shares to be offered for subscription or sale under the Global Offering)) and other related matters resolved hereunder and under EGM Resolutions.

(h) ***Directors' resolutions dated June 14, 2019***

Our Directors resolved on June 14, 2019 that the date of the Capitalization Issue referred to in resolution (b) (ii) passed by our Shareholders at the Extraordinary General Meeting would be June 14, 2019.

5. Buy-back of our Shares by our Company

This section includes the information required by the Hong Kong Stock Exchange to be included in this prospectus concerning the buy-back of our Shares or other securities, if applicable, by our Company.

(a) **Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Hong Kong Stock Exchange to buy-back their securities on the Hong Kong Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) ***Shareholders' approval***

The Listing Rules provide that all buy-back of securities (which must be fully paid up in the case of share for the purpose of Rule 10.06 (1)(a)(i) of the Listing Rules) on the Hong Kong Stock Exchange by a company with its primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

Note:

Pursuant to the resolutions passed by our Shareholders at the Extraordinary General Meeting, a general unconditional mandate (the “**Buy-back Mandate**”) was given to our Directors authorizing them to exercise all powers of our Company to buy-back our Shares on the Hong Kong Stock Exchange or on any other stock exchange on which our Shares may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of not more than 10.0% of the total number of our Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may be or sold issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), such mandate to remain in effect until whichever is the earliest of: (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required to be held under the Cayman Companies Law or the Articles or (3) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Buy-back transactions must be funded out of funds legally available for the purpose in accordance with the Articles, the Cayman Companies Law and the applicable laws and regulations in Hong Kong. A listed company may not buy-back its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time. Any buy-back by our Company may be made out of profits, out of the share premium account or out of an issue of new shares made for the purpose of the buy-back and, in the cases of any premium payable on the buy-back out of either or both of the profits of our Company or the share premium account of our Company. Subject to the provisions of the Cayman Companies Law, a buy-back by our Company of its Shares may also be paid out of capital.

(b) Reasons for buy-back

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have the Buy-back Mandate. Such buy-back transactions may, depending on market conditions and funding arrangements at the time, result in an enhancement of the net value of our Company and its assets and/or its earnings per Share and will only be made when our Directors believe that such buy-back transactions will benefit our Company and its Shareholders.

(c) Funding of buy-back transactions

In buying back securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Buy-back Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared

with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Buy-back Mandate, on the basis of 1,833,300,000 Shares in issue immediately after Listing, would result in up to 183,330,000 Shares being bought back by our Company during the period in which the Buy-back Mandate remains in force.

(d) General

Neither our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands. If, as a result of a securities buy-back, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Codes. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeovers Codes), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged under Rule 26 of the Takeovers Codes to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Codes as a consequence of any buy-backs pursuant to the Buy-back Mandate.

Our Directors will not exercise the Buy-back Mandate if the buy-back would result in the number of Shares which are in the hands of the public falling below 25% of the total number of our Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she or it has a present intention to sell Shares to our Company, nor has he or she or it undertaken not to do so if the Buy-back Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

















- (1) Second Supplemental Deed;
- (2) Third Supplemental Deed;
- (3) Baring Repurchase Undertaking;
- (4) Ping An SPV Shareholders Deed;
- (5) Amended and Restated Shareholders Deed;
- (6) ASF Lock-up Deed;
- (7) Baring Lock-up Deed;
- (8) GT Cedar Lock-up Deed;
- (9) Termination Deed;
- (10) Waiver Deed;
- (11) Cornerstone Investment Agreement;
- (12) Deed of Indemnity;
- (13) Deed of Non-Competition; and
- (14) Hong Kong Underwriting Agreement.

Please refer to the section headed “Definitions” for details of each of the above material contracts.

2. Intellectual property

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which are material to our business:

| Trademark | Registrant | Place of registration | Class | Validity period | Registration number |
|---|---------------------|-----------------------|----------------------------------|-------------------------|---------------------|
|  | Impro China | PRC | 4 | 2010.09.07 — 2020.09.06 | 7280322 |
|  | Impro China | PRC | 7 | 2010.08.07 — 2020.08.06 | 7280336 |
|  | Impro China | PRC | 7 | 2009.05.21 — 2029.05.20 | 5172637 |
|  | Impro China | PRC | 12 | 2006.01.07 — 2026.01.06 | 3838011 |
|  | Impro China | PRC | 37 | 2010.05.21 — 2020.05.20 | 6904887 |
|  | Impro China | PRC | 4 | 2010.09.07 — 2020.09.06 | 7280317 |
|  | Impro China | PRC | 7 | 2010.08.07 — 2020.08.06 | 7280343 |
|  | Impro China | PRC | 7 | 2009.04.07 — 2029.04.06 | 5172620 |
|  | Impro China | PRC | 37 | 2010.05.21 — 2020.05.20 | 6904886 |
|  | Impro China | PRC | 12 | 2009.04.28 — 2029.04.27 | 1269408 |
|  | Impro International | Hong Kong | 40 | 2008.03.13 — 2028.03.12 | 301071288 |
|  | Impro International | Hong Kong | 40 | 2008.03.13 — 2028.03.12 | 301071279 |
|  | Impro Europe | EU | 6, 7, 40 | 2013.11.12 — 2023.06.18 | 011907789 |
|  | Impro Europe | EU | 6, 7, 40 | 2013.11.12 — 2023.06.18 | 011907888 |
|  | Cengiz Makina | Turkey | 06, 07, 08, 09, 35, 37, 42 | 2014.08.07 — 2024.08.07 | 2014/64296 |
| IMPRO | Impro Europe | Switzerland | 6, 7, 40 | 2018.03.01 — 2028.03.01 | 720668 |
| IMPRO | Impro USA | USA | 40 | 2019.02.12 — 2025.02.12 | 5672664 |
|  | Impro USA | USA | 40 | 2019.02.12 — 2025.02.12 | 5672665 |

As of the Latest Practicable Date, we had applied for registration of the following trademarks:

| Trademark | Registrant | Place of registration | Class | Application number | Date of application |
|------------------|-------------------|------------------------------|--------------|---------------------------|----------------------------|
| Impro (wordmark) | Impro Germany | Germany | 7, 40 | 302018112143 | 2018.10.31 ⁽¹⁾ |
| Impro (wordmark) | Impro Europe | EU | 6, 7, 40 | 17814963 | 2018.02.14 ⁽²⁾ |

Notes:

- (1) An opposition against the trademark application was filed on April 4, 2019. We have engaged trademark attorneys to act on our behalf in the opposition proceedings.
- (2) An opposition against the trademark application was filed on June 5, 2018. We have engaged trademark attorneys to act on our behalf in the opposition proceedings.

(b) Patents

As of the Latest Practicable Date, we had registered the following patents in the PRC which are material to our business:

| Patent | Type | Registrant | Patent number | Date of application |
|---------------------------------|---------------|------------------------------------|---------------|---------------------|
| 深孔鑽床的動力頭結構 | Invention | Impro China, Impro-Bees Bearing | 2009100254473 | 2009.03.03 |
| 數控深孔鑽床的鑽套結構 | Invention | Impro China, Impro-Bees Bearing | 2009100254505 | 2009.03.03 |
| 一種槍嘴部件的夾具結構 | Invention | Impro China, Impro-Bees Bearing | 2009100254492 | 2009.03.03 |
| 一種特種車削刀具 | Utility model | Impro China | 2012202818976 | 2012.06.15 |
| 一種氣動洩漏率檢測結構 | Utility model | Impro China | 2012202818660 | 2012.06.15 |
| 一種內漲式整形結構 | Utility model | Impro China | 2012202818410 | 2012.06.15 |
| 一種車削用內漲自定心夾具 | Utility model | Impro China | 2013201792352 | 2013.04.11 |
| 一種面輪廓度檢測機構 | Utility model | Impro China | 2012202818707 | 2012.06.15 |
| 一種加工中心加工孔內圓角的刀具結構 | Utility model | Impro China | 2013201792155 | 2013.04.11 |
| 一種車工裝過定位結構 | Utility model | Impro China | 2013201793730 | 2013.04.11 |
| 一種工裝預緊夾具 | Utility model | Impro China | 2013201791985 | 2013.04.11 |
| 一種多孔位置整形結構 | Utility model | Impro China | 2012202818590 | 2012.06.15 |
| 一種加工用複合液壓工裝 | Utility model | Impro China | 2012202818444 | 2012.06.15 |
| 一種可更換定位結構的工裝 | Utility model | Impro China | 2013201791966 | 2013.04.11 |
| 一種檢測用氣動自定心結構 | Utility model | Impro China | 2012202818425 | 2012.06.15 |
| 一種錐度自動定心鎖緊結構 | Utility model | Impro China | 2012202818270 | 2012.06.15 |
| 一種螺紋底孔深度檢具 | Utility model | Impro China | 2012202818853 | 2012.06.15 |
| 一種光電式深度檢具 | Utility model | Impro China | 2012202818891 | 2012.06.15 |
| 一種液壓彈性自定心結構 | Utility model | Impro China | 201220281882X | 2012.06.15 |
| 一種不銹鋼拉絲工藝專用工具 | Utility model | Impro China | 2012202818711 | 2012.06.15 |
| 一種蠟模輸送清洗裝置 | Invention | Impro China | 2015107177308 | 2015.10.30 |
| 一種鎖體零件拋光拉絲裝置 | Invention | Impro China | 2016105488133 | 2016.07.13 |
| 一種彈性裝夾機構 | Invention | Impro China | 2016105485031 | 2016.07.13 |
| 一種柔性旋轉打磨去毛刺裝置 | Invention | Impro China | 2016105079998 | 2016.07.13 |
| 一種搖臂檢測夾具 | Invention | Impro China | 2015103270774 | 2015.06.15 |
| 一種移動夾緊裝置 | Invention | Impro China | 2015103269809 | 2015.06.15 |
| 一種雙自定心外圓浮動夾緊機構 | Invention | Impro China | 2015103264612 | 2015.06.15 |
| 一種徑向夾緊夾具 | Invention | Impro China | 2015107181479 | 2015.10.30 |
| 一種檢測零件內部孔的倒角根部到該孔平面距離的檢具 | Invention | Impro China | 2013101243970 | 2013.04.11 |
| 一種自定心夾緊工裝 | Invention | Impro China | 201410204015X | 2014.05.15 |
| 一種加工中心液壓轉立加夾具 | Invention | Impro China | 2014102040342 | 2014.05.15 |
| 一種全自動氣動夾具 | Invention | Impro China | 2014102040323 | 2014.05.15 |
| 測量兩個正交的內孔圓心交點到斜交面的距離的測量機構 | Invention | Impro China | 2014102040338 | 2014.05.15 |

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

| Patent | Type | Registrant | Patent number | Date of application |
|--------------------------|---------------|-------------|---------------|---------------------|
| 一種三坐標快速檢測工裝 | Invention | Impro China | 201310124342X | 2013.04.11 |
| 一種機器人澆注線用自動回轉工作臺結構 | Invention | Impro China | 2009100254469 | 2009.03.03 |
| 焙燒工業爐 | Invention | Impro China | 2009100254454 | 2009.03.03 |
| 自動化壓蠟機 | Invention | Impro China | 2012102308785 | 2012.07.05 |
| 壓蠟機模具 | Invention | Impro China | 2012102308802 | 2012.07.05 |
| 圓弧面澆口打磨工裝 | Invention | Impro China | 2012102309792 | 2012.07.05 |
| 薄壁鑄件整形工裝 | Invention | Impro China | 2012102309701 | 2012.07.05 |
| 鑄件半自動整形工裝 | Invention | Impro China | 2012102316160 | 2012.07.05 |
| 雙頭磨床 | Invention | Impro China | 2012102309805 | 2012.07.05 |
| 滾筒淋砂機 | Invention | Impro China | 2012102659917 | 2012.07.30 |
| 一種鋼球式內漲自定心結構 | Invention | Impro China | 2012101972321 | 2012.06.15 |
| 一種測量零件外圓尺寸及圓度的檢具 | Invention | Impro China | 2013101247331 | 2013.04.11 |
| 一種支架液壓立加夾具 | Invention | Impro China | 2016105484749 | 2016.07.13 |
| 熔模鑄造自動澆鑄系統 | Utility Model | Impro China | 2017203848219 | 2017.04.13 |
| 一種開口鉗裝置 | Utility Model | Impro China | 2017207230075 | 2017.06.21 |
| 一種車床用液壓夾具裝置 | Utility Model | Impro China | 2017207515351 | 2017.06.27 |
| 一種蓋板氣動立加夾具 | Utility Model | Impro China | 2017207515811 | 2017.06.27 |
| 自定心輔助夾緊裝置 | Utility Model | Impro China | 2017207521418 | 2017.06.27 |
| 一種浮動輔助支撐機構 | Utility Model | Impro China | 2017207521422 | 2017.06.27 |
| 一種不規則圓柱類零件夾緊裝置 | Utility Model | Impro China | 2017207521969 | 2017.06.27 |
| 一種後拉夾緊裝置 | Utility Model | Impro China | 2017207522181 | 2017.06.27 |
| 一種汽車噴油系統零件浮動夾緊氣檢裝置 | Utility Model | Impro China | 2017207522482 | 2017.06.27 |
| 閘塊蠟模模具結構 | Utility model | Impro China | 2009200451000 | 2009.05.27 |
| 蠟模防砂蓋 | Utility model | Impro China | 2012203226449 | 2012.07.05 |
| 自動切割機 | Utility model | Impro China | 2012203227598 | 2012.07.05 |
| 拋丸器拋頭內部護板 | Utility model | Impro China | 2012204007699 | 2012.08.13 |
| 薄壁彎管連接件專用澆道 | Utility model | Impro China | 2013201826522 | 2013.04.11 |
| 一種數控車床液壓夾具 | Utility model | Impro China | 2015204094741 | 2015.06.15 |
| 一種氣動卡盤裝置 | Utility model | Impro China | 2015204094525 | 2015.06.15 |
| 一種機床用集成工裝 | Utility model | Impro China | 2015204094510 | 2015.06.15 |
| 聯合收割機固定板的定位固定工裝 | Utility model | Impro China | 2015204096249 | 2015.06.15 |
| 一種壓緊裝置 | Utility model | Impro China | 2015204094239 | 2015.06.15 |
| 一種鎖體夾具 | Utility model | Impro China | 2015204096662 | 2015.06.15 |
| 一種磨粒流去毛刺工裝 | Utility model | Impro China | 2015204093861 | 2015.06.15 |
| 一種船舶舷外機擺杆位置檢具 | Utility model | Impro China | 2015204094027 | 2015.06.15 |
| 一種船舶舷外機推進器的錐體輪廓度檢具 | Utility model | Impro China | 2015204094012 | 2015.06.15 |
| 一種壓試裝置 | Utility model | Impro China | 2015204094402 | 2015.06.15 |
| 蠟模輸送清洗裝置 | Utility model | Impro China | 2015208503846 | 2015.10.30 |
| 搖臂塑性變形夾具 | Utility model | Impro China | 2015208496359 | 2015.10.30 |
| 一種澆道模具 | Utility model | Impro China | 2015208504641 | 2015.10.30 |

| Patent | Type | Registrant | Patent number | Date of application |
|-----------------------------|---------------|--------------------|---------------|---------------------|
| 一種自動吹氣裝置..... | Utility model | Impro China | 2015208503850 | 2015.10.30 |
| 一種蠟模水冷卻裝置 | Utility model | Impro China | 201520850203X | 2015.10.30 |
| 徑向夾緊夾具 | Utility model | Impro China | 2015208498867 | 2015.10.30 |
| 可伸縮定位裝置..... | Utility model | Impro China | 201620734873X | 2016.07.13 |
| 鎖體零件拋光拉絲裝置 | Utility model | Impro China | 201620734425X | 2016.07.13 |
| 支架液壓立夾夾具..... | Utility model | Impro China | 2016207344230 | 2016.07.13 |
| 一種自動夾緊車工裝..... | Utility model | Impro China | 2016207344832 | 2016.07.13 |
| 柔性旋轉打磨去毛刺裝置 | Utility model | Impro China | 2016206815250 | 2016.07.01 |
| 浮動力均衡夾緊機構..... | Utility model | Impro China | 2016207344226 | 2016.07.13 |
| 一種隨行打磨裝置..... | Utility model | Impro China | 2016207348439 | 2016.07.13 |
| 夾緊力均衡機構..... | Utility model | Impro China | 2016207344828 | 2016.07.13 |
| 一種可拆卸鑽鉸倒複合刀具 | Utility model | Impro China | 201620856412X | 2016.08.10 |
| 支架液壓四軸夾具..... | Utility model | Impro China | 2016207347652 | 2016.07.13 |
| 液壓自動夾緊裝置..... | Utility model | Impro China | 2016207347648 | 2016.07.13 |
| 膝關節助力裝置 | Utility model | Impro China | 2016208214836 | 2016.08.02 |
| 一種可調式一面二銷夾具 | Utility model | Impro China | 2017200766965 | 2017.01.22 |
| 一種外圓車刀作為鏢孔刀的結構..... | Utility model | Impro China | 2014203162681 | 2014.06.16 |
| 一種利用零件內腔定位加工裝置..... | Utility model | Impro China | 2014202668179 | 2014.05.23 |
| 一種加工中心用兩頭自定心夾具..... | Utility model | Impro China | 2014202669805 | 2014.05.23 |
| 一種銑削用平口鉗機構的夾具..... | Utility model | Impro China | 2014203162978 | 2014.06.16 |
| 一種氣動鉸鏈夾緊工裝 | Utility model | Impro China | 2014202473132 | 2014.05.15 |
| 長徑比大於10的深盲孔滲碳導流裝置..... | Invention | Impro-Bees Bearing | 2009100254191 | 2009.03.05 |
| 高效圓弧面超精加工超精機 | Invention | Impro-Bees Bearing | 2013103039475 | 2013.07.19 |
| 深孔零件的磨削加工裝置 | Invention | Impro-Bees Bearing | 2012103072765 | 2012.08.27 |
| 伺服活塞軸向孔珩磨工裝 | Invention | Impro-Bees Bearing | 2015105728081 | 2015.09.10 |
| 柱塞球位檢具 | Invention | Impro-Bees Bearing | 2013103039456 | 2013.07.19 |
| 密封圈快速安裝機..... | Invention | Impro-Bees Bearing | 2014103821804 | 2014.08.06 |
| 提高16MnCr5零件使用壽命的方法..... | Invention | Impro-Bees Bearing | 2013104925026 | 2013.10.21 |
| 閥芯多工位加工工裝..... | Invention | Impro-Bees Bearing | 2012103001007 | 2012.08.22 |
| 汽車閥芯鑽端面孔、鑽鉸斜孔和徑向孔加工工裝 | Utility model | Impro-Bees Bearing | 200920035875X | 2009.03.05 |
| 萬向夾緊設備 | Utility model | Impro-Bees Bearing | 2010200222343 | 2010.01.18 |
| 銑加工組合夾具 | Utility model | Impro-Bees Bearing | 2010200222362 | 2010.01.18 |
| 細長杆導衛裝置 | Utility model | Impro-Bees Bearing | 2011203916789 | 2011.10.15 |
| 雙工位半自動刷內孔毛刺專機 | Utility model | Impro-Bees Bearing | 2011203916793 | 2011.10.15 |
| 細長杆拋光設備 | Utility model | Impro-Bees Bearing | 2011203916825 | 2011.10.15 |
| 空心槽加工工裝 | Utility model | Impro-Bees Bearing | 2011203916806 | 2011.10.15 |
| 搖臂型壓裝置 | Utility model | Impro-Bees Bearing | 2012204179271 | 2012.08.22 |
| 短軸類外圓珩磨頭 | Utility model | Impro-Bees Bearing | 2012204175158 | 2012.08.22 |
| 內孔高頻淬火處理感應圈 | Utility model | Impro-Bees Bearing | 201220417952X | 2012.08.22 |
| 深孔零件的磨削加工裝置 | Utility model | Impro-Bees Bearing | 2012204271719 | 2012.08.27 |

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| Patent | Type | Registrant | Patent number | Date of application |
|---------------------------------------|---------------|----------------------|---------------|---------------------|
| 內孔測試工裝 | Utility model | Impro-Bees Bearing | 2013204309922 | 2013.07.19 |
| 閥芯鋼球裝配及收口裝置 | Utility model | Impro-Bees Bearing | 2016209055216 | 2016.08.20 |
| 大關節球輪廓度檢具 | Utility model | Impro-Bees Bearing | 2016209055324 | 2016.08.20 |
| 閥芯氣密性檢測裝置 | Utility model | Impro-Bees Bearing | 2016209055108 | 2016.08.20 |
| 熱能去毛刺工裝 | Utility model | Impro-Bees Bearing | 2016209055095 | 2016.08.20 |
| 大關節球輪廓度粗糙度研磨裝置 | Utility model | Impro-Bees Bearing | 201620905531X | 2016.08.20 |
| 搖臂車加工工裝 | Utility model | Impro-Bees Bearing | 2016209055273 | 2016.08.20 |
| 關節球孔口倒角尺寸檢測裝置 | Utility model | Impro-Bees Bearing | 201620905524X | 2016.08.20 |
| 關節球外圓量儀檢具 | Utility model | Impro-Bees Bearing | 2016209055254 | 2016.08.20 |
| 閥芯銑槽工裝 | Utility model | Impro-Bees Bearing | 2016209055269 | 2016.08.20 |
| 網紋行星軸加工設備 | Utility model | Impro-Bees Bearing | 2016209055220 | 2016.08.20 |
| 高精度薄壁深孔閥套用防振刀杆 | Utility model | Impro-Bees Bearing | 2015206980041 | 2015.09.10 |
| 高精度薄壁深孔閥套夾持工裝 | Utility model | Impro-Bees Bearing | 2015206979947 | 2015.09.10 |
| 20CrMo伺服活塞熱處理裝夾工裝 | Utility model | Impro-Bees Bearing | 201520698086X | 2015.09.10 |
| 雙頭三面刃空心銑刀 | Utility model | Impro-Bees Bearing | 2014204392144 | 2014.08.06 |
| 分片式去毛刺磨輪 | Utility model | Impro-Bees Bearing | 2014204392515 | 2014.08.06 |
| 內漲式無螺紋連接軸類零件自動線電鍍掛具 | Utility model | Impro-Bees Bearing | 2014204389688 | 2014.08.06 |
| 活塞外圓超精拋光加工設備 | Utility model | Impro-Bees Bearing | 2014204390327 | 2014.08.06 |
| 密封圈快速安裝機 | Utility model | Impro-Bees Bearing | 2014204389086 | 2014.08.06 |
| 小直徑雙複合導向反旋正切超精密銑刀 | Utility model | Impro-Bees Bearing | 2014204389635 | 2014.08.06 |
| 閥芯軸肩圓角加工裝置 | Utility model | Impro-Bees Bearing | 201420439284X | 2014.08.06 |
| 活塞氬弧焊機構 | Utility model | Impro-Bees Bearing | 2014204235196 | 2014.07.30 |
| 螺紋環規專用檢具 | Utility model | Impro-Bees Bearing | 2014204236729 | 2014.07.30 |
| 短軸感應淬火定位工裝 | Utility model | Impro-Bees Bearing | 2014204235887 | 2014.07.30 |
| 縮管工裝 | Utility model | Impro-Bees Bearing | 2014204235181 | 2014.07.30 |
| 小型數控車床中心架 | Utility model | Impro-Bees Bearing | 2014204235177 | 2014.07.30 |
| 長圓柱體多工位磨平面工裝 | Utility Model | Impro-Bees Bearing | 2017214614652 | 2017.11.06 |
| 閥芯軸向尺寸快速檢測工裝 | Utility Model | Impro-Bees Bearing | 201721465497X | 2017.11.06 |
| 閥芯銑小槽快速裝夾工裝 | Utility Model | Impro-Bees Bearing | 2017214614648 | 2017.11.06 |
| 螺旋槳打磨拋光工業機器人及打磨拋光方法 | Invention | Impro Aerospace Wuxi | 2016109511938 | 2016.10.27 |
| 耐腐蝕不銹鋼零件鹽浴氮化預處理與氣體氮化複合 熱處理工藝 | Invention | Impro Aerospace Wuxi | 2012102671980 | 2012.07.30 |
| 活塞環直徑測量裝置 | Invention | Impro Aerospace Wuxi | 2014104229594 | 2014.08.25 |
| 水力清砂機 | Invention | Impro Aerospace Wuxi | 2015100451227 | 2015.01.28 |
| 高精度加工定位裝置 | Invention | Impro Aerospace Wuxi | 2015100677401 | 2015.02.09 |
| 多軸自動研磨機 | Invention | Impro Aerospace Wuxi | 2015102725274 | 2015.01.28 |
| 擠蠟成型機 | Invention | Impro Aerospace Wuxi | 2015103697464 | 2015.01.28 |
| 修整切割機 | Invention | Impro Aerospace Wuxi | 2015103665764 | 2015.01.28 |
| 傾斜式砂帶打磨設備 | Invention | Impro Aerospace Wuxi | 201510366769X | 2015.01.28 |
| 一種應用於三室真空爐澆築過程澆口杯 | Utility model | Impro Aerospace Wuxi | 2017215223374 | 2017.11.14 |

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

| Patent | Type | Registrant | Patent number | Date of application |
|----------------------------|---------------|----------------------|---------------|---------------------|
| 可調式外圓加工回轉銑刀 | Utility model | Impro Aerospace Wuxi | 2012203227456 | 2012.07.05 |
| 液壓洩漏測試裝置 | Utility model | Impro Aerospace Wuxi | 2012203237195 | 2012.07.05 |
| 加工中心雙向倒角及去毛刺銑刀..... | Utility model | Impro Aerospace Wuxi | 2012205900915 | 2012.11.09 |
| 氣動角度檢具 | Utility model | Impro Aerospace Wuxi | 2012205921786 | 2012.11.09 |
| 零件加工坐標定位裝置 | Utility model | Impro Aerospace Wuxi | 2012205911943 | 2012.11.09 |
| 檢驗斜邊開檔尺寸的帶表檢具 | Utility model | Impro Aerospace Wuxi | 2013208915870 | 2013.12.31 |
| 防變形加強筋 | Utility model | Impro Aerospace Wuxi | 2013208915550 | 2013.12.31 |
| 快速銑削端面環槽的刀具 | Utility model | Impro Aerospace Wuxi | 2013208915940 | 2013.12.31 |
| 能夠鏜內孔、套外圓的兩用刀具..... | Utility model | Impro Aerospace Wuxi | 2013208916229 | 2013.12.31 |
| 內六角車加工刀具 | Utility model | Impro Aerospace Wuxi | 2013208916110 | 2013.12.31 |
| 薄壁零件的輔助支撐夾緊工裝 | Utility model | Impro Aerospace Wuxi | 2013208915762 | 2013.12.31 |
| 通用鑄件快速打磨夾裝設備 | Utility model | Impro Aerospace Wuxi | 2013208915601 | 2013.12.31 |
| 用於含複雜內腔的鋁合金航空鑄件的加工模具 | Utility model | Impro Aerospace Wuxi | 2015200139423 | 2015.01.08 |
| 熔模鑄造易清洗口杯蓋板 | Utility model | Impro Aerospace Wuxi | 2014208708235 | 2014.12.31 |
| 蛇形三叉直澆道結構..... | Utility model | Impro Aerospace Wuxi | 2014208708377 | 2014.12.31 |
| 陶瓷芯精確定位裝置..... | Utility model | Impro Aerospace Wuxi | 201420870856X | 2014.12.31 |
| 航空用薄壁箱體 | Utility model | Impro Aerospace Wuxi | 2014208656423 | 2014.12.31 |
| 圓盤旋轉切割機 | Utility model | Impro Aerospace Wuxi | 2014208693047 | 2014.12.31 |
| 熔模鑄造制殼機械手專用吊臂..... | Utility Model | Impro Aerospace Wuxi | 2017208090255 | 2017.07.05 |
| 用於解決熔模鑄件脫蠟時產生反沖蠟的機構..... | Utility Model | Impro Aerospace Wuxi | 2017207951736 | 2017.07.03 |
| 一種快速定位夾緊自定心工裝..... | Utility Model | Impro Aerospace Wuxi | 2018202703274 | 2018.02.24 |
| 一種蠟模自動清洗裝置 | Utility Model | Impro Aerospace Wuxi | 2017205892714 | 2017.05.24 |
| 一種用於工件U型槽的定位鎖緊機構 | Invention | Impro Yixing | 2012101838905 | 2012.06.06 |
| 一種風能發電機組座體的定位胎具 | Invention | Impro Yixing | 2012102185944 | 2012.06.28 |
| 一種模擬零件裝配位置關係結構的綜合檢具..... | Invention | Impro Yixing | 2013100726540 | 2013.03.07 |
| 高爾夫球頭電鍍掛具 | Utility model | Shenhai Industrial | 2009200697602 | 2009.04.01 |
| 鋁合金管件電鍍掛具 | Utility model | Shenhai Industrial | 200920069759X | 2009.04.01 |
| 改進的氣門鍍鉻裝置 | Utility model | Shenhai Industrial | 2010206331397 | 2010.11.30 |
| 核電站爆破閘電鍍工藝裝置 | Utility model | Shenhai Industrial | 201220427973X | 2012.08.28 |
| 氣門電鍍用翻轉氣缸式陰極導電裝置 | Utility model | Shenhai Industrial | 2012204280262 | 2012.08.28 |
| 核反應堆控制棒驅動機構形成套管軸局部電鍍裝置.. | Utility model | Shenhai Industrial | 2012205557075 | 2012.10.29 |
| 氣門電鍍用工藝裝置 | Utility model | Shenhai Industrial | 2012205839052 | 2012.11.08 |
| 一種內孔電鍍的通用工裝 | Utility model | Shenhai Industrial | 2013203362039 | 2013.06.13 |
| 專用小孔電鍍工裝 | Utility model | Shenhai Industrial | 201320336226X | 2013.06.13 |
| 汽車輪轂局部鍍鋅鍍工裝 | Utility model | Shenhai Industrial | 2016201970315 | 2016.03.15 |
| 核電產品泵軸磷化工藝 | Invention | Shenhai Industrial | 2012105219266 | 2012.12.07 |
| 核反應堆控制棒驅動機構緩衝軸局部電鍍裝置 | Invention | Shenhai Industrial | 2012104170676 | 2012.10.29 |
| 核反應堆內真空閘鍍鉻鍍鏡面工藝裝置..... | Invention | Shenhai Industrial | 2012104170341 | 2012.10.29 |
| 核反應堆控制棒驅動機構形成套管軸局部電鍍裝置.. | Invention | Shenhai Industrial | 2012104170322 | 2012.10.29 |
| 改進的氣門鍍鉻裝置及氣門液流電鍍硬鉻工藝 | Invention | Shenhai Industrial | 2010105655603 | 2010.11.30 |

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

| Patent | Type | Registrant | Patent number | Date of application |
|---------------------------|-----------|--------------------|---------------|---------------------|
| 超導材料鍍鎳工藝 | Invention | Shenhai Industrial | 2010101785805 | 2010.05.21 |
| 一種核用不銹鋼材料表面鍍硬鉻工藝的前處理方法 .. | Invention | Shenhai Industrial | 2013100561622 | 2013.02.22 |
| 鍍鎳合金電鍍工藝 | Invention | Shenhai Industrial | 2013102319731 | 2013.06.13 |
| 核電機組構件鍍鉻工藝 | Invention | Shenhai Industrial | 2012105779484 | 2012.12.27 |
| 汽車發動機漲緊輪蓋鍍鋅工裝 | Invention | Shenhai Industries | 2016101457314 | 2016.03.15 |

As of the Latest Practicable Date, we had applied for registration of the following patents which are material to our business and such applications are still in process:

| Patent application | Type | Registrant | Patent number | Date of application |
|---------------------------------|-----------|----------------------|---------------|---------------------|
| 一種滲碳淬火後奧氏體晶界腐蝕方法 | Invention | Impro China | 201610721579X | 2016.08.25 |
| 一種尋找影響合金鋼鑄件材料韌性關鍵因子量化控制方法 | Invention | Impro China | 2016107595144 | 2016.08.30 |
| 一種熔模鑄造自動澆鑄系統 | Invention | Impro China | 2017102394054 | 2017.04.13 |
| 一種開口鉗裝置及使用其安裝膨脹銷的方法 | Invention | Impro China | 2017104733467 | 2017.06.21 |
| 車床用液壓夾具裝置 | Invention | Impro China | 2017104971944 | 2017.06.27 |
| 殼體氣動立加夾具 | Invention | Impro China | 2017104972148 | 2017.06.27 |
| 一種液壓浮動式均衡壓緊裝置 | Invention | Impro China | 2017104975076 | 2017.06.27 |
| 一種自定心輔助夾緊裝置 | Invention | Impro China | 2017104975235 | 2017.06.27 |
| 浮動輔助支撐機構 | Invention | Impro China | 2017104975470 | 2017.06.27 |
| 一種變速箱零件自定心夾具 | Invention | Impro China | 2017104975466 | 2017.06.27 |
| 一種汽車發動機異形件圓弧面拋光用夾具 | Invention | Impro China | 2017104975540 | 2017.06.27 |
| 一種氣吸式油塞裝配工裝 | Invention | Impro China | 2017104972152 | 2017.06.27 |
| 一種水溶蠟模成型工藝 | Invention | Impro China | 2015107180137 | 2015.10.30 |
| 一種可伸縮定位裝置 | Invention | Impro China | 201610548546X | 2016.07.13 |
| 一種液壓自動夾緊裝置 | Invention | Impro China | 201610548419X | 2016.07.13 |
| 一種夾緊力均衡機構 | Invention | Impro China | 2016105485563 | 2016.07.13 |
| 一種支架液壓四軸夾具 | Invention | Impro China | 2016105487554 | 2016.07.13 |
| 一種膝關節助力裝置 | Invention | Impro China | 2016106187769 | 2016.08.02 |
| 汽車輪轂局部鍍鋅工藝 | Invention | Shenhai Industries | 2016101457386 | 2016.03.15 |
| 航天互連片用鉛箔的表面處理工藝 | Invention | Shenhai Industries | 2016103854671 | 2016.06.03 |
| 水溶蠟和水溶性陶瓷芯組合在鋁合金熔模鑄造中的應用 | Invention | Impro Aerospace Wuxi | 2017102922816 | 2017.04.28 |
| 高效的鋁合金熔模低壓鑄造生產方法 | Invention | Impro Aerospace Wuxi | 2017104414137 | 2017.06.13 |
| 陶瓷芯包蠟定位工藝在熔模鑄造中的應用 | Invention | Impro Aerospace Wuxi | 2017103894442 | 2017.05.27 |
| 一種採用局部冷卻解決零件縮鬆問題的不鏽鋼澆注工藝 | Invention | Impro Aerospace Wuxi | 2017108314547 | 2017.09.15 |
| 筒狀薄壁不銹鋼連接件防縮鬆鑄造工藝 | Invention | Impro Aerospace Wuxi | 2017108313474 | 2017.09.15 |

| Patent application | Type | Registrant | Patent number | Date of application |
|-------------------------|---------------|------------------|---------------|---------------------|
| 一種鑄件分型面的毛刺去除用外圓磨裝置..... | Utility Model | Impross Impeller | 2017205656228 | 2017.05.21 |
| 一種鑄件表面多餘石膏去除用粗噴砂機..... | Utility Model | Impross Impeller | 2017205656143 | 2017.05.21 |

(c) Domain name

As of the Latest Practicable Date, we had registered the following domain names which are material to our business:

| Domain name | Registrant | Registration date | Expiry date |
|--------------------------|-------------|-------------------|-------------------|
| impro.hk | Impro China | November 19, 2010 | November 19, 2022 |
| impro.com.cn | Impro China | August 2, 2001 | August 1, 2021 |
| 鷹普集團.公司 | Impro China | August 21, 2014 | August 21, 2020 |
| 鷹普集團.中國 | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普集團.網絡 | Impro China | August 21, 2014 | August 21, 2020 |
| 鷹普集團.biz | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普集團.com | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普集團.net..... | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普.網絡..... | Impro China | August 21, 2014 | August 21, 2020 |
| 鷹普.公司..... | Impro China | August 21, 2014 | August 21, 2020 |
| 鷹普.biz..... | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普.com..... | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普.net | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普中國.公司 | Impro China | August 21, 2014 | August 21, 2020 |
| 鷹普中國.網絡 | Impro China | August 21, 2014 | August 21, 2020 |
| 鷹普中國.中國 | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普中國.biz | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普中國.com | Impro China | January 10, 2008 | January 10, 2020 |
| 鷹普中國.net | Impro China | January 10, 2008 | January 10, 2020 |
| impro-group.hk | Impro China | January 10, 2008 | January 10, 2020 |
| impro-group.com | Impro China | January 10, 2008 | January 10, 2021 |
| impro-group.net..... | Impro China | January 10, 2008 | January 10, 2021 |
| impro-group.com.cn | Impro China | January 10, 2008 | January 10, 2021 |
| impro-group.cn..... | Impro China | January 10, 2008 | January 10, 2021 |
| improgroup.net | Impro China | January 10, 2008 | January 10, 2021 |
| improgroup.com.cn..... | Impro China | January 10, 2008 | January 10, 2021 |
| improgroup.cn..... | Impro China | January 10, 2008 | January 10, 2021 |
| 鷹普.中國..... | Impro China | October 23, 2003 | October 23, 2020 |
| impro.cn | Impro China | March 17, 2003 | March 17, 2024 |

| Domain name | Registrant | Registration date | Expiry date |
|------------------------------|---------------------|-------------------|-------------------|
| 鷹普.cn | Impro China | October 23, 2003 | October 23, 2020 |
| improaerocastings.com..... | Impro China | July 13, 2011 | July 13, 2020 |
| improaero.com | Impro China | March 10, 2017 | March 10, 2027 |
| improaerospace.com | Impro China | March 10, 2017 | March 10, 2027 |
| 鷹普精密.biz | Impro China | August 11, 2016 | August 11, 2026 |
| 鷹普精密.ltd..... | Impro China | August 11, 2016 | August 11, 2026 |
| 鷹普精密.com | Impro China | August 11, 2016 | August 11, 2026 |
| 鷹普精密.cn..... | Impro China | August 11, 2016 | August 11, 2026 |
| 鷹普精密.公司 | Impro China | August 11, 2016 | August 11, 2020 |
| 鷹普精密.中國 | Impro China | August 11, 2016 | August 11, 2020 |
| impro-as.com | Impro China | August 11, 2016 | August 11, 2026 |
| impro-na.com..... | Impro China | August 11, 2016 | August 11, 2026 |
| impro-sa.com | Impro China | August 11, 2016 | August 11, 2026 |
| impro-oa.com..... | Impro China | August 11, 2016 | August 11, 2026 |
| impro-af.com..... | Impro China | August 11, 2016 | August 11, 2026 |
| impro-mx.com | Impro China | July 13, 2016 | July 13, 2026 |
| improprecision.com | Impro China | May 26, 2016 | May 26, 2026 |
| impro-precision.com | Impro China | May 26, 2016 | May 26, 2026 |
| improprecision.com.cn..... | Impro China | May 26, 2016 | May 26, 2026 |
| impro-precision.com.cn | Impro China | May 26, 2016 | May 26, 2026 |
| improrecision.cn..... | Impro China | May 26, 2016 | May 26, 2026 |
| impro-precision.com.cn | Impro China | May 26, 2016 | May 26, 2026 |
| shenhai.cc | Shenhai Industries | March 10, 2009 | March 10, 2026 |
| IMPRO.COM.HK | Impro International | November 22, 2010 | November 29, 2020 |
| IMPROUSA.COM | Impro USA | May 26, 1999 | May 26, 2021 |

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) *Disclosure of interests of Directors and chief executive*

Immediately following completion of the Global Offering and the Capitalization Issue (without taking into consideration our Shares subscribed for under the Global Offering and that may be issued and allotted or sold pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), the interests and short positions of our Directors and the chief executive of our Company in our Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the

SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”), will be as follows:

(i) *Interest in our Company*

| Name of Director | Capacity | Number of Shares or underlying shares | Percentage of Shareholding interest (without taking into consideration any Shares which may be issued and allotted or sold pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme) |
|----------------------|---|---------------------------------------|--|
| Mr. LU..... | Interest in controlled corporation ⁽¹⁾ | 1,137,790,787 | 62.06 |
| | Spouse Interest ⁽²⁾ | 1,500,000 | 0.08 |
| 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 |

(ii) *Interest in associated corporation*

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

Notes:

- (1) All issued shares of Impro Development are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development.
- (2) Ms. WANG is granted the Pre-IPO Share Options 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 Pre-IPO Options to subscribe for 1,500,000 Shares.
- (5) Ms. ZHU Liwei is granted the Pre-IPO Options to subscribe for 1,500,000 Shares.
- (6) Mr. WANG Dong is granted the Pre-IPO Options to subscribe for 1,500,000 Shares.

(b) ***Disclosure of interests under the provisions of Divisions 2 and 3 of Part XV of the SFO***

Save as disclosed in the section headed "Controlling Shareholders and Substantial Shareholders" in this prospectus, each of the following persons will, immediately following the completion of the Global Offering and Capitalization Issue (assuming the Over-allotment Option is not exercised, and without taking into consideration our Shares that may be issued pursuant to the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme) fall to disclose its interests (or short positions, if applicable) in our Shares or underlying shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company:

| Name of Shareholder | Nature of Interest | Immediately after completion of the Global Offering (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme) | |
|---|------------------------------------|--|-------|
| | | Number of Shares | % |
| Baring ⁽¹⁾⁽²⁾ | Beneficial owner | 237,153,654 | 12.94 |
| Casting Holdings Limited ⁽¹⁾⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| The Baring Asia Private Equity Fund V, L.P. ⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| Baring Private Equity Asia GP V, L.P. ⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| Baring Private Equity Asia GP V Limited ⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| Jean Eric Salata Rothleder ⁽³⁾ | Interest in controlled corporation | 237,153,654 | 12.94 |
| GT Cedar ⁽⁴⁾⁽⁵⁾ | Beneficial owner | 95,267,123 | 5.20 |
| Genertec Investment Management Co. Ltd. ⁽⁶⁾ | Interest in controlled corporation | 95,267,123 | 5.20 |
| China General Technology (Group) Holding Company Limited ⁽⁶⁾ | Interest in 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) As of the date of this prospectus, Baring holds 202,041 Shares, representing 15.81% of the total Shares in issue.
- (3) 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.
- (4) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.
- (5) As of the date of this prospectus, GT Cedar holds 81,162 Shares, representing 6.35% of the total Shares in issue.
- (6) Genertec Investment Management Co. Ltd. is owned as to 99.7% by China General Technology (Group) Holding Company Limited and 0.3% by China National Technical Import & Export Corporation, a wholly owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd. and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares.

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

| Member of our Group | Name of shareholders with 10% or more equity interest other than us | Approximate percentage of shareholding |
|----------------------------|--|---|
| | | % |
| Impross Impeller | Ross Casting | 33 |

2. Further information about our Directors

(a) *Particulars of our Directors’ service contracts*

Each of the executive Directors has entered into a service contract with our Company for an initial term of three years commencing on the Listing Date. The service contract shall continue thereafter and may only be terminated in accordance with the provisions therein contained by either party giving to the other not less than three months’ prior notice in writing.

The service agreement may be renewed in accordance with the Articles and the applicable laws and regulations.

Each executive Director will receive HK\$300,000 (or its equivalent in other currencies) per annum as director fee in addition to his or her annual basic salary. The maximum annual basic salary of each executive Director under his or her service contract with our Company in 2019 is as follows:

| Name of the executive Directors | Maximum annual basic salary (including director fee) |
|---------------------------------|---|
| | (HK\$) |
| Mr. LU..... | 2,250,000 |
| Ms. WANG | 2,354,940 |
| Ms. ZHU Liwei | 2,026,706 |
| Mr. YU Yuepeng | 2,026,706 |
| Mr. WANG Dong | 1,791,246 |

(b) ***Particulars of the letters of appointment with our independent non-executive Directors***

Mr. YU Kwok Kuen Harry, Dr. Gordon YEN, and Mr. LEE Siu Ming were appointed as our independent non-executive Directors effective from June 15, 2018 and each resigned on December 31, 2018. Mr. YU Kwok Kuen Harry, Dr. Gordon YEN, and Mr. LEE Siu Ming have been re-appointed as independent non-executive Directors effective from April 1, 2019. The annual Director fee for each independent non-executive Director is as follows:

| Name of the independent non-executive Directors | Director fee |
|---|--------------|
| | (HK\$) |
| Mr. YU Kwok Kuen Harry | 300,000 |
| Dr. YEN Gordon | 300,000 |
| Mr. LEE Siu Ming | 300,000 |

As the appointment of the independent non-executive Directors is effective from April 1, 2019, their entitlement to the annual Director fee in 2019 would be made on a pro rata basis.

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

3. Directors' remuneration

The aggregate amount of fees, salaries, contributions to retirement benefits, discretionary bonuses, allowances, and other benefits in kind granted to our Directors (in a

capacity as directors or employees of any subsidiary of our Group) for the three years ended December 31, 2018 were HK\$10.1 million, HK\$8.8 million and HK\$11.5 million, respectively. There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind during the Track Record Period.

Under the current arrangements, the aggregate amount of remuneration of our Directors for the year ending December 31, 2019 is expected to be HK\$12.5 million, excluding the discretionary bonus payable to our executive Directors.

4. Fees or commission received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraphs under “E. Other information — 8. Consents of experts” below had received any commissions, discounts, agency fee, brokerage or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives has any interests and short positions in our Shares, underlying shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are listed on the Hong Kong Stock Exchange;
- (b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in our Shares and underlying shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the parties listed in the section headed “E. Other information — 8. Consents of experts” below is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, by or leased to us;
- (d) save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the section headed “E. Other information — 8. Consents of experts” below is materially interested in any contract or arrangement subsisting at the date in this prospectus which is significant in relation to the business of our Group;

- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph under “E. Other information — 8. Consents of Experts” below (i) is interested legally or beneficially in any of our Shares or any share in any of our subsidiaries or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors or their respective associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued Share capital) has any interest in our five largest suppliers or customers during the Track Record Period; and
- (g) none of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2018 (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

D. SHARE OPTION SCHEMES

1. Pre-IPO Share Option Scheme

Our Company conditionally adopted a share option scheme on June 17, 2011. The share option scheme was lapsed because of no public offering of our Shares before the end of 2011. At the Extraordinary General Meeting, we adopted the 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. Assuming an Offer Price of HK\$3.05 per Offer Share (being the mid-point of the indicative range of the Offer Price), the exercise price of each Pre-IPO Share Option will be HK\$2.44 per Share and we will receive a total consideration of HK\$73,761,200 if all Pre-IPO Share Options are exercised; and
- (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.

As of the date of this prospectus, the Pre-IPO Share Options for an aggregate of 30,230,000 Shares, representing 1.65% of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalization Issue (without taking into consideration our Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option and the Post-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme), have been granted to 161 Grantees. No further option will be granted under the Pre-IPO Share Option Scheme. Each Grantee is required to pay HK\$1.00 by way of consideration for the grant of the Pre-IPO Share Options.

The following table sets out information on the Connected Grantees:

| Connected Grantees | Position(s) in our Group | Date of acceptance of grant | Residential address | Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full | Percentage of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme |
|-------------------------|--------------------------|-----------------------------|---|---|--|
| 1. Ms. WANG | Executive Director | June 12, 2019 | Flat No. 04, 35th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Hong Kong | 1,500,000 | 0.08 |
| 2. Mr. YU Yuepeng | Executive Director | June 12, 2019 | Room 102, No. 195 District 2 Vanke City Gardens Binhu District Wuxi City Jiangsu Province PRC | 1,500,000 | 0.08 |
| 3. Ms. ZHU Liwei..... | Executive Director | June 12, 2019 | Room 2703, 7 Runzeyaju Wuxi City, Jiangsu Province PRC | 1,500,000 | 0.08 |
| 4. Mr. WANG Dong..... | Executive Director | June 12, 2019 | Room 501, No. 141 Yue Xiu Garden Binhu District Wuxi City Jiangsu Province, PRC | 1,500,000 | 0.08 |
| | Sub-total | | | <u>6,000,000</u> | |

The following table sets out information on the Grantees who are members of our senior management team:

| Grantees who are members of our senior management team | Position(s) in our Group | Date of acceptance of grant | Residential address | Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full | Percentage of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme |
|--|---|-----------------------------|---|---|--|
| 5. Mr. YILMAZ Koray Mert..... | Group Vice President | June 12, 2019 | Kemal Türkler Mah. Ziverbey Sk. Fiyaka Sitesi — B14 Blok No. 48R iç Kapi No: 10 Sancaktepe Istanbul, Turkey | 1,050,000 | 0.06 |
| 6. Mr. IP Wui Wing Dennis..... | Chief Financial Officer and Company Secretary | June 12, 2019 | Flat C, 5/F Block 9, Island Harbourview 11 Hoi Fai Road Tai Kok Tsui Kowloon, Hong Kong | 900,000 | 0.05 |
| 7. Mr. SUN Xiaohao | Group Vice President | June 12, 2019 | Room 1706, No.11 89th Lane of Anshun Road Changning District Shanghai City, PRC | 825,000 | 0.05 |
| 8. Mr. ZHUANG Xulei ... | Managing Director and Chief Engineer of Impro Aerospace Wuxi, Executive Director and General Manager of Impro-Bees Plating & Painting | June 12, 2019 | Room 1701 No. 36 Building B District of Yangguang City Garden Wuxi City Jiangsu Province, PRC | 500,000 | 0.03 |
| | Sub-total | | | 3,275,000 | |

| Grantees who are members of our senior management team | Position(s) in our Group | Date of acceptance of grant | Residential address | Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full | Percentage of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme |
|--|--|-----------------------------|---|---|--|
| 9. Mr. SHEN Kun | Executive Director and General Manager of Shenhai Industrial | June 12, 2019 | Room 402, No.77 Building, Jin Xi Di Jing Yuan, Erquan Zhong Lu, Dongting Xishan District, Wuxi City Jiangsu Province, PRC | 350,000 | 0.02 |
| 10. Mr. CHEN Kailiang .. | Managing Director of Impro Europe, Impro Germany, BFG-Czech, BFG-Hessen, and BFG Niederrhein | June 12, 2019 | 60594 Frankfurt Am Main Schweizer Straße, 11A, Germany | 275,000 | 0.02 |
| 11. Mr. DENG Mingquan | Executive Director of Impro Taizhou and General Manager of Plant 6, Plant 7 and Plant 9 | June 12, 2019 | Staff Dormitory of Impro Yixing | 275,000 | 0.02 |
| 12. Mr. ZHANG Rangli .. | Managing Director of Plant 1 | June 12, 2019 | 6-102, Zone 1, Vanke City Garden, Binhu District, Wuxi City, Jiangsu Province, PRC | 250,000 | 0.01 |
| 13. Ms. ZHANG Mingmei | Business Development Director | June 12, 2019 | Flat C, 10/F Gold Jade Mansion 339-347 Lockhart Road Wanchai Hong Kong | 250,000 | 0.01 |
| | Sub-total | | | 1,400,000 | |

APPENDIX IV
STATUTORY AND GENERAL INFORMATION

The following table sets forth information on the Grantees receiving Pre-IPO Share Options to subscribe for 250,000 Shares or more (other than the Connected Grantees and the Grantees who are members of our senior management team):

| Other Grantees | Position(s) in our Group | Date of acceptance of grant | Residential address | Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full | Percentage of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme |
|---|--|-----------------------------|---|---|--|
| 14. Mr. GIZEM, Şükrü | Managing Director of CMTR-1 | June 12, 2019 | Tepeören Mah. Kılıç Ali Reis Bul., Akfirat Evleri Sitesi 93 blok no: 26br, Tuzla / Istanbul | 350,000 | 0.01 |
| 15. Mr. KEÇEÇI, Fatih Mehmet..... | Managing Director of CMTR-1 | June 12, 2019 | Cemil Topuzlu Cad. Emre apt. no:7/14 Fenerbahçe - Kadıköy / Istanbul | 350,000 | 0.01 |
| 16. Mr. BAO Yinshan..... | Deputy General Manager of Impro-Bees Bearing | June 12, 2019 | Room 301, No. 27 Xiangxiyuan, New District, Wuxi City, Jiangsu Province | 250,000 | 0.01 |
| 17. Mr. LI Yang | Deputy General Manager of Impro-Bees Bearing | June 12, 2019 | 94-501 Baoshi Huaxia Qingcheng, Wuxi City, Jiangsu Province | 250,000 | 0.01 |
| 18. Mr. JIA Bo..... | Operation Director, Automotive Division 1 of Plant 1 | June 12, 2019 | Room 201 No.30 Building Tianjing Garden Wuxi City Jiangsu Province, PRC | 250,000 | 0.01 |
| 19. Mr. CHENG Daoguang | Operation Director of Plant 8 | June 12, 2019 | 43-183-502 Tianjiaoguandi Phase III Akadiya Xinan Street Xinwu District Wuxi City PRC | 250,000 | 0.01 |
| 20. Mr. ZHANG Jingyi | Quality Director | June 12, 2019 | Room 602, Unit 15, C District, Kaixuanhuating An Town, Xishan District, Wuxi City, Jiangsu Province | 250,000 | 0.01 |
| 21. Ms. Miki CHIOU | Sales Director of Impro Industries USA, Inc. | June 12, 2019 | 10375 Church St. #118 Rancho Cucamonga CA 91730 United States | 250,000 | 0.01 |
| | Sub-total | | | <u>2,200,000</u> | |
| Other Grantees | | | | | |
| 22. 140 Grantees who are employees of our Group | | | | 17,355,000 | 0.95 |
| | | | Total | <u>30,230,000</u> | <u>1.65</u> |

Save as those disclosed above, all other 140 Grantees are full-time employees of our Group. Assuming that all Pre-IPO Share Options are exercised in full, our Company will be required to allot and issue an aggregate of 30,230,000 Shares for consideration for each Share representing 20% discount to the Offer Price. The Pre-IPO Share Options can be exercised during the period between 180-day after the third anniversary and 180-day after the fifth anniversary of the Listing Date.

All holders of Pre-IPO Share Options may only exercise their options in the following manner:

| Period of exercise of the relevant option | Maximum percentage of exercisable Pre-IPO Share Options |
|--|---|
| During a period of 180 days immediately after the third anniversary of the Listing Date (both days inclusive) | 33.34 |
| During a period of 180 days immediately after the fourth anniversary of the Listing Date (both days inclusive) | 33.33 |
| During a period of 180 days immediately after the fifth anniversary of the Listing Date (both days inclusive) | 33.33 |

None of the Pre-IPO Share Options are exercisable within a period of three years from the Listing Date. Our Directors have agreed not to exercise any Pre-IPO Share Options to the extent that the public float of our Company will as a result of such exercise be less than the minimum requirements under the Listing Rules.

Application has been made to the Listing Committee for the listing of, and permission to deal in, on the Main Board our Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options, that is 30,230,000 Shares representing 1.65% of total Shares in issue immediately following completion of the Global Offering and the Capitalization Issue.

The impact of the Pre-IPO Share Options on the financial results of our Group will be accounted for in the consolidated financial statements for the year ending December 31, 2019. Our Directors estimate that the amount to be charged to the income statement for the year ending December 31, 2019 in relation to the issue of Pre-IPO Share Options is minimal based on the terms of the Pre-IPO Share Options and the date of grant of the Pre-IPO Share Options. For illustrative purpose, the diluted earnings per Share for the year ending December 31, 2019 would have been decreased by 0.18%. Assuming full exercise of the Pre-IPO Share Options, the shareholding of the Shareholders immediately following completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option and any options that may be granted under the Post-IPO Share Option Scheme are not exercised) would have been diluted by 1.65% as calculated based on 1,863,530,000 Shares in issue.

Waiver and exemption

Our Company has applied for and has been granted (i) a waiver from the Hong Kong Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules and (ii) an exemption from the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Further information on the waiver and the exemption is set out in the section headed “Waiver and Consent under the Listing Rules and Certificate of Exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance” in this prospectus.

2. Post-IPO Share Option Scheme

Our Company conditionally adopted a share option scheme on June 17, 2011. The share option scheme was lapsed because of no public offering of our Shares before the end of 2011. As of the Latest Practicable Date, no option had been granted or agreed to be granted under such 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 “**Adoption Date**”). The terms of the Post-IPO Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Our Company will disclose details of the Post-IPO Share Option Scheme in its annual and interim reports including but not limited to the number of options, date of grant, exercise price, exercise period and vesting period during the financial year in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Application has been made to the Listing Committee for the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Post-IPO Share Option Scheme, being 1,833,300,000 Shares in total.

(a) Purpose

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.

(b) **Conditions of the Post-IPO Share Option Scheme**

The Post-IPO Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (i) subject to (ii) and (iii) below, the approval of our Shareholders for the adoption of the Post-IPO Share Option Scheme;
- (ii) the approval of the Hong Kong Stock Exchange for the listing of and permission to deal in, on the Main Board a maximum of 1,833,300,000 Shares to be allotted and issued pursuant to the exercise of the options (the “**Options**”) in accordance with the terms and conditions of the Post-IPO Share Option Scheme;
- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with its terms or otherwise; and
- (iv) the commencement of dealing of our Shares on the Main Board.

(c) **Who may join**

Our Board may, at its absolute discretion, offer Options to subscribe for such number of Shares in accordance with the terms set out in the Post-IPO Share Option Scheme to:

- (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 persons referred above are the “**Eligible Participants**”)

(d) **Maximum number of Shares**

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.

(e) ***Maximum number of Option to each participant***

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. Where any further grant of Options to such an Eligible Participant would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Participant, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Participant, and containing the details and information required under the Listing Rules. The number and terms (including the exercise price) of the Options to be granted to such Eligible Participant must be fixed before the approval of our Shareholders and the date of our Board meeting proposing such grant shall be taken as the date of grant for the purpose of calculating the subscription price of those Options.

(f) ***Offer and grant of Options***

Subject to the terms of the Post-IPO Share Option Scheme, our Board shall be entitled at any time within 10 years from the date of adopting the Post-IPO Share Option Scheme to offer the grant of an Option to any Eligible Participant as our Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as our Board may (subject to the terms of the Post-IPO Share Option Scheme) determine (provided the same shall be a board lot for dealing in our Shares on the Hong Kong Stock Exchange or an integral multiple thereof).

(g) ***Granting Options to connected persons***

Subject to the terms in the Post-IPO Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company, or any of their respective associates, such offer must first be approved by the independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (ii) (where the securities are listed on the Hong Kong Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a Eligible Participant who is a substantial shareholder or an independent non-executive Director, or any of their respective associates. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

(h) ***Offer period and number accepted***

An offer of the grant of an Option shall remain open for acceptance by the Eligible Participant concerned for a period of 28 days from the offer date (the “**Offer Date**”) provided that no such grant of an Option may be accepted after the expiry of the effective period of the Post-IPO Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Participant and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Participant, being a date not later than 28 days after the Offer Date (the “**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

(i) ***Restriction on the time of grant of Options***

Our Board shall not grant any Option under the Post-IPO Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of our Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

(j) ***Minimum holding period, vesting and performance target***

Subject to the provisions of the Listing Rules, our Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set out in the Post-IPO Share Option Scheme as our Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of our Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Post-IPO Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as our Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

(k) ***Amount payable for Options***

The amount payable on acceptance of an Option is HK\$1.00.

(l) ***Subscription price***

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.

(m) ***Exercise of Option***

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set out in this Post-IPO Share Option Scheme by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Post-IPO Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of our Shares so allotted.
- (ii) The exercise of any Option may be subject to a vesting schedule to be determined by our Board in its absolute discretion, which shall be specified in the offer letter.
- (iii) The exercise of any Option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised Share capital of our Company.
- (iv) Subject as hereinafter provided:
 - (aa) in the case of the grantee ceasing to be an Eligible Participant by reason of death or permanent disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with our Group under paragraph (p) (v) below has occurred, the grantee or the personal representative(s) of the grantee shall be entitled within a period of 12 months (or such longer period as our Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Option in full (to the extent not already exercised);
 - (bb) in the event that the grantee ceases to be an Eligible Participant for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground

of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;

(cc) if a general offer is made to all Shareholders and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

(dd) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it despatch notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:

— the Option period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Post-IPO Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Post-IPO Share Option Scheme);

— the period of two months from the date of such notice; or

— the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option;

(ee) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatch such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal

personal representative(s)) shall be entitled to exercise all or any of his Options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(n) ***Ranking of Shares***

Our Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of our Company and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

(o) ***Life of Post-IPO Share Option Scheme***

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.

(p) ***Lapse of Option***

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry date relevant to that Option;
- (ii) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (iii) the date of the commencement of the winding-up of our Company;

- (iv) the date on which the scheme of arrangement of our Company becomes effective;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his relationship with our Group on any one or more of the following grounds:
 - (aa) that he has been guilty of serious misconduct;
 - (bb) that he has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of our Group;
 - (cc) that he has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally; or
 - (dd) on any other ground as determined by our Board that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board or our board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; and
- (vi) the date on which our Board shall exercise our Company's right to cancel the Option at any time after the grantee commits a breach of the restriction on transferability of Option or the Options are cancelled.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

(q) ***Adjustment***

In the event of any capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements, such corresponding alterations (if any) shall be made (except on an issue of securities of our Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (i) the number of our Shares subject to any outstanding Options;
- (ii) the subscription price of each Option;
- (iii) our Shares to which the Option relates;
- (iv) the method of exercise of the Option; and/or
- (v) any combination thereof,

as the auditors or an approved independent financial adviser shall at the request of our Company or any grantee, certify in writing either generally or as regards any particular grantee, to be fair and reasonable, provided that any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes) as that to which he was entitled to subscribe had he exercised all the Options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors or the independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees. The costs of the auditors or the independent financial adviser to our Company shall be borne by our Company. Notice of such adjustment shall be given to the grantees by our Company.

(r) ***Cancellation of Options***

Our Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (i) the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (ii) the grantee makes a written request to our Board for the Option to be cancelled; or
- (iii) if the grantee has, in the opinion of our Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

(s) ***Termination***

Our Company may by resolution in general meeting or the Board may at any time terminate the operation of the Post-IPO Share Option Scheme. Upon termination of the Post-IPO Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary

to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Post-IPO Share Option Scheme.

(t) ***Transferability of Options***

The Option or an offer (the “**Offer**”) of the grant of an Option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option held by him or any Offer made to him or attempt so to do (save that the grantee may nominate a nominee in whose name our Shares issued pursuant to the Post-IPO Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

(u) ***Amendment***

The Post-IPO Share Option Scheme may be altered in any respect by a resolution of our Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders in general meeting, provided always that the amended terms of the Post-IPO Share Option Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of Options granted (except where the alterations take effect automatically under the terms of the Post-IPO Share Option Scheme); (ii) any alteration to the provisions of the Post-IPO Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantees or the Eligible Participants (as the case may be); and (iii) any alteration to the aforesaid termination provisions.

E. OTHER INFORMATION

1. Tax and other indemnities

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands and Hong Kong.

Each of our Controlling Shareholders has entered into the Deed of Indemnity in favour of our Company (for ourselves and on behalf of our subsidiaries) whereby each of our Controlling Shareholders has jointly and severally indemnified us and keep members of our Group at all times fully indemnified against any depletion in or diminution in value of our assets as a direct or indirect consequence of any of the following:

- (a) any duty which is or hereafter becomes payable by any member of our Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong), as amended by the Revenue (Abolition of Estate Duty) Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong or by virtue

of section 43 of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of the death of any person and by reason of the assets of any member of our Group being deemed for the purpose of Hong Kong estate duty to be included in the property passing on his or her death by reason of that person making or having made a relevant transfer to any member of our Group on or before the Listing Date;

- (b) any amount recovered against any member of our Group under the provisions of section 43(7) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong in respect of any duty payable under section 43(1)(c) or 43(6) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of the death of any person and by reason of the assets of any member of our Group being deemed for the purpose of Hong Kong estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any member of our Group on or before the Listing Date;
- (c) any amount of duty which any member of our Group is obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong in respect of the death of any person in any case where the assets of another company are deemed for the purpose of Hong Kong estate duty to be included in the property passing on that person's death by reason of that person making or having made a relevant transfer to that other company and by reason of any member of our Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong on or before the Listing Date, but only to the extent to which any member of our Group is unable to recover an amount or amounts in respect of that duty from any other person under the provisions of section 43(7)(a) of the Estate Duty Ordinance;
- (d) any penalty imposed on any member of our Group under section 42 of the Estate Duty Ordinance on or before the Listing Date by reason of the relevant company defaulting on any obligation to give information to the Inland Revenue Department of Hong Kong under section 42(1) of the Estate Duty Ordinance; and
- (e) any and all taxation falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Listing Date or any event occurring or deemed to occur on or before such date whether alone or in conjunction with any other event whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company including any and all taxation resulting from the receipt by any member of the Group of any amount paid by our Controlling Shareholders under the Deed of Indemnity.

Each of our Controlling Shareholders shall, however, not be liable under the Deed of Indemnity for taxation, claim or liability to the extent that:

- (a) to the extent that provisions, reserve or allowance has been made for such taxation in audited consolidated financial statements of our Group during the Track Record Period;
- (b) for which any member of our Group is liable as a result of any event occurring or income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date;
- (c) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of our Controlling Shareholders, otherwise than in the ordinary course of business after the Listing Date or carried out, made or entered into pursuant to a legally binding commitment created after December 31, 2018;
- (d) to the extent that such taxation or liability is discharged by another person who is not any member of our Group and that any member of our Group is not required to reimburse such person in respect of the discharge of the taxation or liability; and
- (e) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by Inland Revenue Department of Hong Kong or the tax authorities or any other authority in any part of the world coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Listing Date with retrospective effect.

2. Litigation

Save as disclosed in this prospectus, no member of our Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on our Group's results of operations or financial condition.

3. Joint Sponsors

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors, have made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, our Shares in issue, Shares to be issued pursuant to the Global Offering, the Capitalization Issue and our Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme.

The two Joint Sponsors are entitled to an aggregate sponsor fee of US\$1.25 million.

4. Compliance advisor

Our Company has appointed Southwest Securities (HK) Capital Limited as the compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules.

5. Preliminary expenses

No preliminary expenses have been incurred or are proposed to be incurred by our Company.

6. Promoter

We have no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| Name | Qualifications |
|-----------------------------|---|
| Morgan Stanley Asia Limited | A licensed corporation under the SFO to engage in Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO |
| BOCI Asia Limited | A licensed corporation under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO |

| Name | Qualifications |
|--|---------------------------------|
| KPMG | Certified Public Accountants |
| JunHe LLP | PRC legal advisors |
| Squire Patton Boggs (US) LLP | United States legal advisors |
| Squire Patton Boggs (US) LLP | Germany legal advisors |
| Squire Patton Boggs (US) LLP | Luxembourg legal advisors |
| Squire Patton Boggs s.r.o., advokátní kancelář | Czech Republic legal advisors |
| PEKÍN & PEKÍN | Turkey legal advisors |
| Sánchez Devanny Eseverri, S.C. | Mexico legal advisors |
| Conyers Dill & Pearman | Cayman Islands attorneys-at-law |
| Roland Berger Hong Kong Limited | Industry consultant |

8. Consents of experts

Each of the above experts, namely Morgan Stanley Asia Limited, BOCI Asia Limited, KPMG, JunHe LLP, Squire Patton Boggs (US) LLP (as the United States legal advisors), Squire Patton Boggs (US) LLP (as the Germany legal advisors), Squire Patton Boggs (US) LLP (as the Luxembourg legal advisors), Squire Patton Boggs s.r.o., advokátní kancelář, PEKÍN & PEKÍN, Sánchez Devanny Eseverri, S.C., Conyers Dill & Pearman, and Roland Berger Hong Kong Limited, has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As of the Latest Practicable Date, none of the experts named in the paragraphs under “E. Other information — 7. Qualifications of experts” above has any shareholding interests in our Group or any right (whether legally enforceable or not) to subscribe for or, to nominate persons to subscribe for securities in any member of our Group.

9. Binding effect

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of our Share or any share in any of our subsidiaries.
- (b) No member of our Group is presently listed on any stock exchange or traded on any trading system.
- (c) Our Directors confirm that:
 - (i) there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2018 (being the date to which the latest audited consolidated financial statements of our Group were prepared);
 - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (iii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.
- (d) The principal register of members of our Company is maintained in the Cayman Islands by the Cayman Principal Registrar and the branch register of members of our Company is maintained in Hong Kong by our Hong Kong Share Registrar. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

- (f) Save as disclosed in this prospectus, we had not issued any debentures nor did it have any outstanding debentures or any convertible debt securities.

11. Bilingual prospectus

The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN
HONG KONG AND AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- the written consents set forth in the paragraphs under “E. Other Information — 8. Consents of experts” in Appendix IV to this prospectus; and
- copies of the material contracts set forth in the paragraphs under “B. Further Information about the Business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus.

B. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG

Copies of the following documents will be available for inspection at the offices of Squire Patton Boggs at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- the Articles and the Memorandum;
- the accountants’ report prepared by KPMG on our Group, the text of which is set forth in Appendix I to this prospectus;
- the report from KPMG relating to the unaudited pro forma financial information, the text of which is set forth in Appendix II to this prospectus;
- the audited financial statements of each member of the Group for the three years ended December 31, 2018;
- the rules of the Pre-IPO Share Option Scheme;
- the full list of all Grantees containing all the information in respect of each portion required under paragraph 10 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance and Rule 17.02(1)(b) and paragraph 27 of Part A of Appendix I to the Listing Rules;
- the rules of the Post-IPO Share Option Scheme;
- the industry report prepared by Roland Berger Hong Kong Limited;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN
HONG KONG AND AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

- the material contracts set forth in the paragraphs under “B. Further information about the Business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus;
- the service agreements and the letters of appointment referred to in the paragraphs under “C. Further information about our Directors and Substantial Shareholders — 2. Further information about our Directors — (a) Particulars of our Directors’ service contracts” and “(b) Particulars of the letters of appointment with our independent non-executive Directors” in Appendix IV to this prospectus;
- the written consents referred to in the paragraphs under “E. Other information — 8. Consents of experts” in Appendix IV to this prospectus;
- the legal opinions issued by Squire Patton Boggs (US) LLP on various matters in relation to our subsidiaries in the United States, Germany, and Luxembourg and the applicable laws and regulations;
- the legal opinion issued by Squire Patton Boggs s.r.o., advokátní kancelář on various matters in relation to BFG-Czech and the applicable laws and regulations;
- the legal opinion issued by Sánchez Devanny Eseverri, S.C. on various matters in relation to the subsidiaries of our Company incorporated in Mexico and the applicable laws and regulations;
- the legal opinion issued by PEKÍN & PEKÍN on various matters in relation to Cengiz Makina and the applicable laws and regulations;
- the legal opinions issued by JunHe LLP in respect of, amongst other things, on various matters in relation to our subsidiaries in the PRC, property interests, and taxation matters of our company in the PRC and the applicable laws and regulations;
- the letter of advice provided by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus; and
- the Cayman Companies Law.



鷹普精密工業有限公司
Impro Precision Industries Limited