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## **IMPRO PRECISION INDUSTRIES LIMITED**

**鷹普精密工業有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1286)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **HIGHLIGHTS**

- Revenue decreased to HK\$2,924.6 million (2019: HK\$3,640.2 million), a decrease of 19.7% as compared to last year
- Revenue from China region increased to HK\$780.8 million (2019: HK\$769.2 million), an increase of 1.5% as compared to last year
- A record high of 1,371 new SKUs co-developed with our customers, representing a 37.7% increase as compared to last year
- Gross profit decreased to HK\$767.3 million (2019: HK\$1,131.5 million) and gross profit margin was 26.2% (2019: 31.1%)
- Impairment loss of goodwill and other assets of HK\$445.2 million (2019: nil)
- Adjusted EBITDA decreased to HK\$801.9 million (2019: HK\$1,101.5 million) and adjusted EBITDA margin was 27.4% (2019: 30.3%)
- Adjusted profit attributable to shareholders of the Company decreased to HK\$313.4 million (2019: HK\$575.7 million), a decrease of 45.6% as compared to last year
- Free cash inflow amounted to HK\$364.0 million, or 114.7% of adjusted profit for the year
- Net gearing ratio decreased to 6.2% (2019: 12.6%)
- The Board proposed a final dividend of 1.8 HK cents per share. Together with the interim dividend of 2.4 HK cents per share, total dividend for the year ended 31 December 2020 would be 4.2 HK cents per share

## CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

## OVERVIEW OF OPERATING RESULTS

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

## Revenue by business segments

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

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

## Revenue by end-markets

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

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

## Revenue by geographical market

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

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

## MARKET AND BUSINESS REVIEW

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

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

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

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

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



## **BUSINESS OUTLOOK**

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

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

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

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

## **ACKNOWLEDGEMENT**

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

**LU Ruibo**

*Chairman and Chief Executive Officer*

Hong Kong, 11 March 2021

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

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

#### Attributable to:

(Loss)/profit attributable to shareholders of the Company	<b>(148.2)</b>	538.8	-127.5%
Non-controlling interest	<b>3.9</b>	0.2	1,850.0%
	<b>(144.3)</b>	539.0	-126.8%

<i>HK\$ million</i>	Year ended 31 December		Change
	2020	2019	
Adjusted profit attributable to shareholders of the Company <sup>2</sup>	<b>313.4</b>	575.7	-45.6%
(Loss)/earnings per share – Basic (HK cents)	<b>(7.9)</b>	31.8	-124.8%
Adjusted basic earnings per share (HK cents)	<b>16.6</b>	34.0	-51.2%
EBITDA <sup>3</sup>	<b>356.7</b>	1,082.8	-67.1%
EBITDA margin	<b>12.2%</b>	29.7%	-17.5%
Adjusted EBITDA <sup>4</sup>	<b>801.9</b>	1,101.5	-27.2%
Adjusted EBITDA margin	<b>27.4%</b>	30.3%	-2.9%
Free cash inflow from operations <sup>5</sup>	<b>364.0</b>	461.8	-21.2%



<i>HK\$ million</i>	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>Change</b>
Cash and cash equivalents and pledged deposits	<b>602.0</b>	573.8	4.9%
Total debt	<b>853.8</b>	1,082.2	-21.1%
Net debt (total debt less cash and cash equivalents and pledged deposits)	<b>251.8</b>	508.5	-50.5%
Total equity	<b>4,032.9</b>	4,027.0	0.1%
Market capitalization <sup>6</sup>	<b>4,708.2</b>	6,026.5	-21.9%
Enterprise value <sup>7</sup>	<b>4,979.8</b>	6,550.0	-24.0%

### **Key Financial Ratios**

Adjusted return on equity <sup>8</sup>	<b>7.8%</b>	17.2%
Enterprise value to adjusted EBITDA	<b>6.2</b>	5.9
Net debt to adjusted EBITDA	<b>0.3</b>	0.5
Net gearing ratio	<b>6.2%</b>	12.6%
Interest coverage (adjusted for impairment loss of goodwill and other assets)	<b>11.6</b>	9.2

### *Notes:*

- 1 Adjusted effective tax rate is computed as below:

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

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

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

- 3 Earnings before interest, tax, depreciation and amortization.

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

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

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

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

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

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

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

## **FINANCIAL REVIEW**

### **Revenue**

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

### **Gross profit and gross profit margin**

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

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

### **Other revenue**

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

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

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

### **Impairment loss of goodwill and other assets**

The Group has made an one-off impairment loss of goodwill and other assets amounted to HK\$445.2 million during the year ended 31 December 2020 (2019: nil), which was due to the lower projected cash flow of the acquired businesses of two plants in Nantong and Turkey respectively and after taking into account the combined effect of COVID-19 pandemic and the expected slow recovery from current market conditions, the management considered that the recoverable amounts of goodwill and other assets were below their carrying amounts and an impairment loss was recognised.

## Selling and distribution expenses

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

## Administrative and other operating expenses

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

## Net finance costs

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

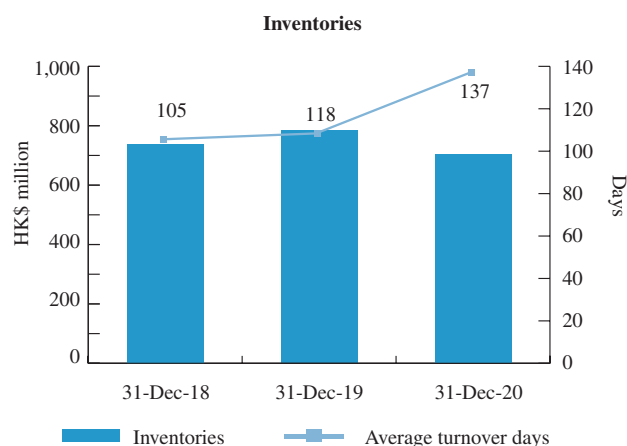
## Income tax

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

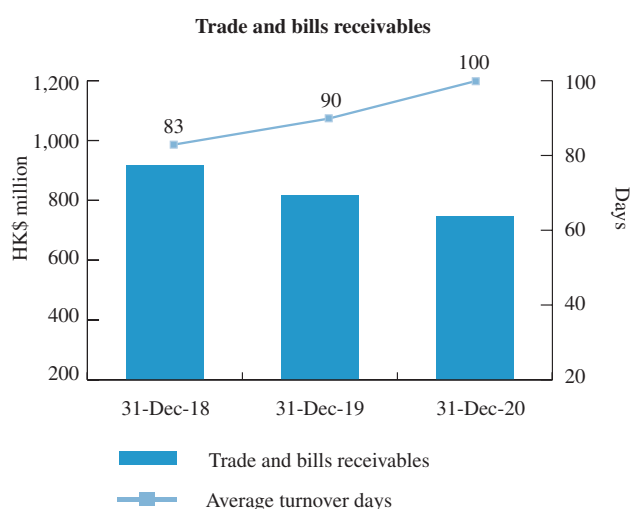
## Working capital

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

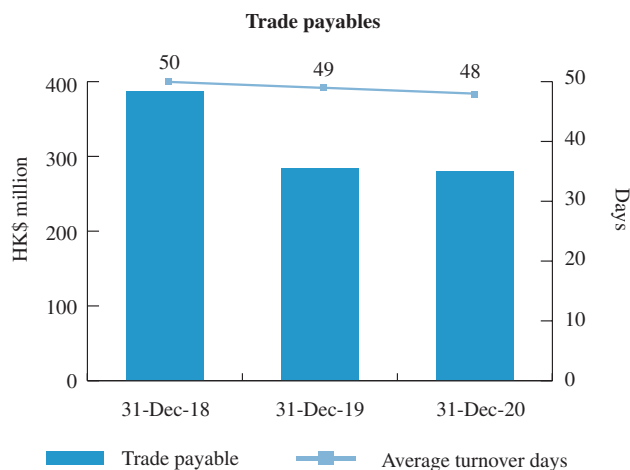
**Inventories** decreased HK\$80.5 million to HK\$705.3 million as of 31 December 2020 (31 December 2019: HK\$785.8 million) mainly due to efforts to reduce the level of finished goods and work in progress in order to efficiently managing the working capital and to reduce unnecessary storage cost during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



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



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



## **EBITDA and Net loss**

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

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

## **Financial resources and liquidity**

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

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

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



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

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>HK\$ million</i></b>	<b><i>HK\$ million</i></b>
<b>Cash generated from:</b>		
Operating activities	<b>888.7</b>	974.1
Investing activities	<b>(503.0)</b>	(573.5)
Financing activities	<b>(373.3)</b>	(62.8)
<b>Net movement in cash</b>	<b><u>12.4</u></b>	<b><u>337.8</u></b>

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

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

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

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

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

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

**Year ended 31 December**

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

**Indebtedness**

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

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

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

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

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

## Capital Expenditures and Commitments

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

## Pledge of Assets

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

## Contingent Liabilities

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

- (a) On 24 September 2011, a fire accident was incurred on the plant of Nantong Shenhai Industrial Technology Co., Ltd. (“**Shenhai Industrial**”). Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the “**Insurer**”). On 12 May 2015, the Supreme People’s Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK\$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People’s Procuratorate of the PRC in 2016. As of the date of this announcement, the Supreme People’s Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.
- (b) Shenhai Industrial received arbitration notice that on 8 October 2018 the former shareholders of Shenhai Industrial was sued by a law firm in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial’s fire accident insurance. During the year ended 31 December 2020, the law firm has returned the dissenting payments of RMB8,000,000 to the Group. The law firm requested the former controlling shareholder of Shenhai Industrial to settle the overdue legal fee amounting to RMB21,000,000 and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. As of the date of this announcement, the arbitration is on hearing. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

## Future Plans for Material Investments or Capital Assets

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

## **Material Acquisitions and Disposal of Subsidiaries**

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

## **Significant Investments**

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

## **Treasury Policies and Exposure to Fluctuation in Exchange Rates**

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

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

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

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

## **Employees and Remuneration Policy**

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

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

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

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

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

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

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Revenue</b>	3	<b>2,924,614</b>	3,640,170
Cost of sales		<u>(2,157,314)</u>	<u>(2,508,654)</u>
<b>Gross profit</b>		<b>767,300</b>	1,131,516
Other revenue	4	<b>36,565</b>	23,419
Other net (loss)/income	4	<b>(27,879)</b>	5,520
Impairment loss of goodwill and other assets	12	<b>(445,201)</b>	–
Selling and distribution expenses		<b>(116,956)</b>	(160,604)
Administrative and other operating expenses		<u><b>(245,853)</b></u>	<u>(303,347)</u>
<b>(Loss)/profit from operations</b>		<b>(32,024)</b>	696,504
Net finance costs	5	<u><b>(20,773)</b></u>	<u>(57,974)</u>
<b>(Loss)/profit before taxation</b>	6	<b>(52,797)</b>	638,530
Income tax	7	<u><b>(91,517)</b></u>	<u>(99,490)</u>
<b>(Loss)/profit for the year</b>		<u><b>(144,314)</b></u>	<u>539,040</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(148,191)</b>	538,856
Non-controlling interest		<u><b>3,877</b></u>	<u>184</u>
<b>(Loss)/profit for the year</b>		<u><b>(144,314)</b></u>	<u>539,040</u>
<b>(Loss)/earnings per share</b>	9		
Basic (HK\$)		<b>(0.079)</b>	0.318
Diluted (HK\$)		<u><b>(0.079)</b></u>	<u>0.317</u>



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
<b>(Loss)/profit for the year</b>	<b>(144,314)</b>	<b>539,040</b>
<b>Other comprehensive income for the year (after tax adjustments)</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
Effect of remeasurement of defined benefit retirement plans obligation (net of tax of HK\$1,216,000 (2019: HK\$1,853,000))	(5,909)	(7,387)
Equity investments at fair value through other comprehensive income (FVOCI) – net movement in fair value reserves (non-recycling) (net of tax of HK\$nil (2019: HK\$101,000))	–	(571)
<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	254,586	(88,517)
<b>Other comprehensive income for the year</b>	<b>248,677</b>	<b>(96,475)</b>
<b>Total comprehensive income for the year</b>	<b>104,363</b>	<b>442,565</b>
<b>Attributable to:</b>		
Equity shareholders of the Company	99,574	442,608
Non-controlling interest	4,789	(43)
<b>Total comprehensive income for the year</b>	<b>104,363</b>	<b>442,565</b>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2020*

	Note	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>3,256,627</b>	2,884,594
Prepayments for purchase of property, plant and equipment		<b>25,333</b>	57,071
Intangible assets		<b>60,315</b>	69,729
Goodwill	12	–	446,440
Deferred expenses		<b>173,158</b>	163,249
Other financial asset		<b>1,673</b>	1,572
Deferred tax assets		<b>20,268</b>	32,316
		<b>3,537,374</b>	3,654,971
<b>Current assets</b>			
Inventories		<b>705,335</b>	785,812
Trade and bills receivables	10	<b>748,106</b>	815,987
Prepayments, deposits and other receivables		<b>74,289</b>	76,313
Taxation recoverable		<b>5,206</b>	768
Restricted deposits		–	56,623
Pledged deposits		–	4,803
Cash and cash equivalents		<b>601,985</b>	568,965
		<b>2,134,921</b>	2,309,271
<b>Current liabilities</b>			
Bank loans		<b>460,866</b>	614,398
Lease liabilities		<b>24,611</b>	70,033
Trade payables	11	<b>280,143</b>	284,215
Other payables and accruals		<b>196,157</b>	258,980
Taxation payable		<b>45,591</b>	73,998
		<b>1,007,368</b>	1,301,624
<b>Net current assets</b>		<b>1,127,553</b>	1,007,647
<b>Total assets less current liabilities</b>		<b>4,664,927</b>	4,662,618

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

## NOTES

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

Impro Precision Industries Limited (the “Company”) was incorporated in Cayman Islands on January 8, 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

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

The Company is an investment holding company. The Company and its subsidiaries (together, “the Group”) are principally engaged in the development and production of a broad range of casting products and precision machining parts and provision of surface treatment services.

The consolidated financial statements are presented in HK dollars, unless otherwise stated and have approved for issue by the Board of Directors on 11 March 2021. They have been prepared in accordance with all applicable International Financial Reporting Standard (“IFRS”) using the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The financial information relating to the financial year ended 31 December 2020 that is included in this preliminary annual results announcement does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

### 2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior years have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year except for the amendment to IFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

### 3 REVENUE AND SEGMENT REPORTING

#### (a) Revenue

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

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

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

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

The Group's revenue from contracts with customers were recognized at point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 3(b)(iii).

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

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

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

#### (b) Segment reporting

The Group manages its businesses by divisions, which are organized by business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No individually mentioned operating segments have been aggregated to form the following reportable segments.

- Investment casting: It is a metal forming process that casts molten metal into a ceramic mold produced by surrounding a wax pattern. The main products are automotive, industrial & others and aerospace & medical components.
- Precision machining: It uses a computerized power-driven machine tool to drill or shape metal parts with high precision specifications. The main products are automotive, hydraulic equipment and aerospace components.
- Sand casting: It is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand and molten metal is poured into the mould cavity for solidification. The main products are high horsepower engine and construction equipment components.
- Surface treatment: It primarily contains surface treatment services including plating, anodizing, painting and coating and is mainly used in automotive and aerospace end-markets.

**(i) Segment results and assets**

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

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

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

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

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

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

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



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

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

	Year ended 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Revenue</b>		
Reportable segment revenue	2,947,077	3,664,815
Elimination of inter-segment revenue	<u>(22,463)</u>	<u>(24,645)</u>
Consolidated revenue	<u>2,924,614</u>	<u>3,640,170</u>
<b>Gross profit</b>		
Reportable segment gross profit	775,078	1,142,219
Elimination of inter-segment gross profit	<u>(7,778)</u>	<u>(10,703)</u>
Consolidated gross profit	<u>767,300</u>	<u>1,131,516</u>
<b>Profit</b>		
Reportable segment profit	828,777	1,109,848
Elimination of inter-segment profit	<u>(7,778)</u>	<u>(10,703)</u>
Reportable segment profit derived from the Group's external customers	820,999	1,099,145
Other revenue	36,565	23,419
Other net (loss)/income	(27,879)	5,520
Impairment loss of goodwill and other assets	(445,201)	—
Listing expenses	—	(18,700)
Unallocated head office and corporate expenses	<u>(27,741)</u>	<u>(26,599)</u>

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Consolidated profit before interest, taxes, depreciation and amortization	<b>356,743</b>	1,082,785
Net finance costs	<b>(20,773)</b>	(57,974)
Depreciation and amortization	<b>(388,767)</b>	(386,281)
Consolidated (loss)/profit before taxation	<b>(52,797)</b>	638,530
	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Assets</b>		
Reportable segment assets	<b>5,052,919</b>	5,302,432
Elimination of inter-segment receivables	<b>(9,085)</b>	(7,198)
	<b>5,043,834</b>	5,295,234
Other financial asset	<b>1,673</b>	1,572
Deferred tax assets	<b>20,268</b>	32,316
Restricted deposits	–	56,623
Pledged deposits	–	4,803
Cash and cash equivalents	<b>601,985</b>	568,965
Unallocated head office and corporate assets	<b>4,535</b>	4,729
Consolidated total assets	<b>5,672,295</b>	5,964,242

**(iii) Geographical information**

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

*Revenue from external customers*

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

*Specified non-current assets*

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

**4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME**

**(a) Other revenue**

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Rental income (Note i)	573	579
Government subsidies (Note ii)	31,838	18,386
Others	4,154	4,454
	<u>36,565</u>	<u>23,419</u>

*Notes:*

- (i) As at 31 December 2020, the total minimum lease receivables under irrevocable operating leases agreements in the future amounted to HK\$669,000 (2019: HK\$990,000).
- (ii) During the year ended 31 December 2020, the Group received unconditional government subsidies of HK\$28,687,000 (2019: HK\$15,416,000) as encouragement of their contribution in technology development, environment protection and contribution to local economy.

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

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

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

## 5 NET FINANCE COSTS

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

## 6 (LOSS)/PROFIT BEFORE TAXATION

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

### (a) Staff costs

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

### (b) Other items

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

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

## 7 INCOME TAX

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year (2019: 16.5%).

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

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

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

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

## 8 DIVIDENDS

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

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

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

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

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

## 9 (LOSS)/EARNINGS PER SHARE

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

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

#### *Weighted average number of ordinary shares*

	2020	2019
Issued ordinary shares at 1 January	1,883,295,000	1,277,912
Effect of capitalization issue	–	1,498,722,088
Effect of shares issued by initial public offering	–	193,496,630
Weighted average number of ordinary shares at 31 December	<u>1,883,295,000</u>	<u>1,693,496,630</u>

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

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

**Weighted average number of ordinary shares (diluted)**

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

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

**10 TRADE AND BILLS RECEIVABLES**

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

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

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

**Aging analysis**

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

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

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



## 11 TRADE PAYABLES

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Trade payables	<b>280,143</b>	284,215

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

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

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

## 12 GOODWILL

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

### 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:

	<b>At 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Shenhai Group	–	231,168
Cengiz Makina	–	215,272
	<hr/>	<hr/>
	–	446,440
	<hr/>	<hr/>

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 31 December 2019, 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 12.3% and 13.7% for Shenhai Group and Cengiz Makina respectively as at 31 December 2019. 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.

Since the outbreak of COVID-19 pandemic throughout Europe and North America in March 2020, most of the Group's European and North American customers have implemented various extent of plant shutdowns, which have reduced the Group's revenue and operating profit. While these countries have gradually lifted the economic lockdown recently, the management of the Group believes that in the near to medium term, COVID-19 pandemic will continue to adversely affect consumer confidence which will lead to weak consumption globally in the next few years. The management of the Group therefore identified the impairment indicator of the CGUs of Shenhai Group and Cengiz Makina and performed the impairment test at 30 June 2020. The Group revised the financial budgets used in the value-in-use calculations based on the latest financial information, with reference to current market conditions and the industry outlook. The result indicated that the estimated recoverable amount of the CGUs of Shenhai Group and Cengiz Makina were lower than their carrying amounts by HK\$230,130,000 and HK\$215,071,000 respectively. Accordingly, impairment loss of HK\$439,970,000 were allocated to fully write off the goodwill of the CGUs and impairment loss of HK\$5,231,000 were allocated pro rata to other assets in the CGUs, on the basis of the carrying amount of each asset in the CGUs.

## CORPORATE GOVERNANCE FRAMEWORK

The Company believes that good corporate governance can enhance its overall effectiveness, and thus create additional value for our shareholders. The Company is committed to maintaining high standards and has applied the Principles that are set out in the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) as set out in Appendix 14 of the Listing Rules. The Company’s corporate governance practices are based on these Principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Company to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance transparency and accountability.

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix 10 The Rules Governing the Listing of the Stock Exchange (the “**Listing Rules**”) as the code of conduct for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the year ended 31 December 2020.

## **FINAL DIVIDEND**

The Board has proposed to pay a final dividend of 1.8 HK cents per share, resulting a full year dividend of 4.2 HK cents per share for the year ended 31 December 2020, payable to the Shareholders whose name appear on the register of members of the Company on Wednesday, 12 May 2021. Subject to approval by the Shareholders of the Company at the annual general meeting to be held on Tuesday, 4 May 2021 (the “AGM”), the final dividend will be paid to the Shareholders on or about Monday, 24 May 2021.

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

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

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

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

## **SCOPE OF WORK OF KPMG**

The financial figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company’s auditor, KPMG, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Boards and consequently no assurance has been expressed by the auditor.

## AUDIT COMMITTEE

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

The Company’s consolidated financial statements for the year ended 31 December 2020 have been reviewed by the Audit Committee. The Audit Committee is of the view that the consolidated financial statements of the Company for the year ended 31 December 2020 comply with the applicable accounting standards and the disclosure requirements under the applicable laws and regulations, including the Listing Rules, and that adequate disclosures have been made.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company ([www.improrecision.com](http://www.improrecision.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2020 annual report containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and dispatched to the Shareholders in due course.

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

Hong Kong, 11 March 2021

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