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IMPRO PRECISION INDUSTRIES LIMITED

鷹普精密工業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1286)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board of Directors (the “**Board**”) of Impro Precision Industries Limited (the “**Company**”) is pleased to announce the interim results of the Company and its subsidiaries for the six months ended 30 June 2021. This announcement, containing the full text of the 2021 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in relation to information to accompany preliminary announcements of interim results.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.improprecision.com. The 2021 Interim Report for the six months ended 30 June 2021 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 12 August 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.

Impro

鷹普精密工業有限公司
Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

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2021

INTERIM REPORT

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Corporate Information

EXECUTIVE DIRECTORS

Mr. LU Ruibo
(Chairman and Chief Executive Officer)
Ms. WANG Hui, Ina
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Kwok Kuen Harry
Dr. YEN Gordon
Mr. LEE Siu Ming

AUDIT COMMITTEE

Mr. YU Kwok Kuen Harry *(Chairman)*
Dr. YEN Gordon
Mr. LEE Siu Ming

REMUNERATION COMMITTEE

Mr. LEE Siu Ming *(Chairman)*
Mr. YU Kwok Kuen Harry
Mr. LU Ruibo

NOMINATION COMMITTEE

Mr. LU Ruibo *(Chairman)*
Dr. YEN Gordon
Mr. LEE Siu Ming

SUSTAINABILITY COMMITTEE

Dr. YEN Gordon *(Chairman)*
Mr. LEE Siu Ming
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

AUTHORIZED REPRESENTATIVES

Mr. LU Ruibo
Mr. IP Wui Wing Dennis

COMPANY SECRETARY

Mr. IP Wui Wing Dennis, *CPA*

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN CHINA

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AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the
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Central, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited
Citibank, N.A., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications Limited
Industrial and Commercial Bank of China Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
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Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai, Hong Kong

WEBSITE

www.improrecision.com

SHARE INFORMATION

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

KEY DATES

Ex-dividend date:
Wednesday, 25 August 2021

Closure of register of members:
Friday, 27 August 2021 to Tuesday, 31 August 2021
(both days inclusive)

Record date:
Tuesday, 31 August 2021

Interim dividend payable date:
On or before Thursday, 9 September 2021

Financial Highlights

HK\$ million	Six months ended 30 June		
	2021	2020	Change
Revenue	1,823.9	1,368.6	33.3%
Gross profit	498.3	365.9	36.2%
Gross profit margin	27.3%	26.7%	0.6%
Profit/(loss) attributable to shareholders	175.0	(269.9)	164.8%
Adjusted profit attributable to shareholders ¹	214.2	182.9	17.1%
Basic earnings/(loss) per share (HK cents)	9.29	(14.33)	164.8%
Adjusted basic earnings per share (HK cents)	11.37	9.71	17.1%
EBITDA ²	447.2	(35.4)	1,363.3%
EBITDA margin	24.5%	-2.6%	27.1%
Adjusted EBITDA ³	477.4	409.8	16.5%
Adjusted EBITDA margin	26.2%	29.9%	-3.7%
Last twelve months ("L12M") adjusted EBITDA ³	869.5	801.9	8.4%
Free cashflow from operations ⁴	(260.2)	284.8	-191.4%
HK\$ million	As at 30 June 2021	As at 31 December 2020	Change
Cash and cash equivalents	387.4	602.0	-35.6%
Total debt	944.2	853.8	10.6%
Net debt (total debt less cash and cash equivalents)	556.8	251.8	121.2%
Total equity	4,202.6	4,032.9	4.2%
Market capitalization ⁵	4,576.4	4,708.2	-2.8%
Enterprise value ⁶	5,154.7	4,979.8	3.5%
HK\$ million	As at 30 June 2021	As at 31 December 2020	Change
Key Financial Ratios			
Adjusted return on equity ⁷	8.4%	7.8%	
Enterprise value to L12M adjusted EBITDA	5.9	6.2	
Net debt to L12M adjusted EBITDA	0.6	0.3	
Net gearing ratio	13.2%	6.2%	
Adjusted interest coverage ratio	21.9	11.6	

Notes:

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

	Six months ended 30 June	
	2021 HK\$ million	2020 HK\$ million
Profit/(loss) for the period	176.6	(268.3)
Adjustments:		
— Impairment loss of goodwill and other assets, net of tax	—	444.2
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant, net of tax	30.2	—
— Amortization and depreciation related to past purchase price allocation, net of tax	9.0	8.6
Adjusted profit for the period	215.8	184.5
Less: profit attributable to non-controlling interest	(1.6)	(1.6)
Adjusted profit attributable to shareholders of the Company	214.2	182.9

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

- 3 Adjusted EBITDA represents EBITDA added back provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant and impairment loss of goodwill and other assets for the six months ended 30 June 2021 and 2020, respectively. Last twelve months (“L12M”) adjusted EBITDA was derived from the last 12 months’ adjusted EBITDA.

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

	Six months ended 30 June		L12M up to	
	2021 HK\$ million	2020 HK\$ million	30 June 2021 HK\$ million	Year ended 31 December 2020 HK\$ million
EBITDA	447.2	(35.4)	839.3	356.7
Adjustments:				
— Impairment loss of goodwill and other assets	—	445.2	—	445.2
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant	30.2	—	30.2	—
Adjusted EBITDA	477.4	409.8	869.5	801.9

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

- 5 Outstanding number of shares multiplied by the closing share price (HK\$2.43 per share as of 30 June 2021).

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

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

Chairman's Statement

Dear Shareholders,

I am pleased to report the interim results of Impro Precision Industries Limited (the "**Company**", together with its subsidiaries, the "**Group**" or "**Impro Group**") for the six months ended 30 June 2021 (the "**Period**").

During the six months ended 30 June 2021, the revenue of the Group amounted to HK\$1,823.9 million, representing an increase of 33.3% as compared to the same period last year. Profit attributable to shareholders of the Company (the "**Shareholders**") amounted to HK\$175.0 million, as compared to a loss of HK\$269.9 million over the same period last year. The turnaround was mainly due to the substantial impairment loss of goodwill and other assets of HK\$444.2 million (after tax) in the same period last year, while no such charge was incurred during this period. In the first half of this year, the Group recognised a one-off staff severance and related expenses of HK\$30.2 million (after tax) in relation to the closure of a manufacturing plant in Germany, and recorded amortization and depreciation charges of HK\$9.0 million (after tax) related to the past purchase price allocation (six months ended 30 June 2020: HK\$8.6 million). The adjusted profit attributable to the Shareholders of the Company, amounted to HK\$214.2 million, representing a year-on-year increase of 17.1%. The adjusted basic earnings per share amounted to 11.37 HK cents. Taking into account the sound financial position of the Group, the Board resolved to declare an interim dividend of 2.9 HK cents per share for the six months ended 30 June 2021, representing an increase of 20.8%.

OVERVIEW OF OPERATING RESULTS

In the first half of 2021, although the global economy has not yet recovered to pre-pandemic levels, the Group has seen a significant recovery in the automotive and industrial end-markets, with new orders for some of the related segment end-markets exceeding their historical highs. However, factors such as the significant increase in the cost of raw materials and ocean freight and the appreciation of Renminbi during the Period, as well as the significant extension of the international shipping cycle and the severe shortage of container space, have caused the Group to shift some of its orders to more costly modes of transportation (such as air freight) to cope with the lengthening of the shipping cycle and the increase in customer demand, and in response to the local government's encouragement for employees in the PRC to "celebrate the Chinese New Year locally", the Group paid an additional one-off special bonus in addition to the statutory overtime pay for the Chinese New Year holidays of 200% or 300%, resulting in a significant increase in the relevant costs during the Period. The price adjustment mechanism for raw materials and exchange rates with customers was agreed to be adjusted in the second half of the year. Although negotiations with most of our customers have been completed, the incremental international ocean freight rate will only be implemented in the second half of the year.

Revenue by end-markets

The Group sells its products to worldwide customers in diversified end-markets. During the Period, both the automotive and industrial end-markets recorded significant revenue growth, among which, the automotive end-market recovered significantly and recorded a historical high revenue of HK\$896.5 million during the Period, representing a year-on-year increase of 50.2%. Such increase was mainly attributable to the significant increase in demand for components of commercial vehicles with higher emission standards as a result of the implementation of "National VI" Standard, the new commercial vehicle emission standard in the PRC. During the Period, revenue from commercial vehicle components of the Group increased by 91.5% year-on-year to HK\$386.7 million.

In addition, the industrial and other components business also performed well. During the Period, revenue from this segment increased by 27.9% year-on-year to HK\$786.2 million. Among which, revenue from the recreational boat and vehicle end-market increased by 80.0% year-on-year to HK\$87.3 million, which was mainly driven by the active cooperation between the Group and its customers to develop “staycation” and new products and new opportunities in health and sports trends. Revenue from hydraulic equipment end-market increased by 76.3% year-on-year to HK\$193.2 million during the Period, mainly due to the Group’s business development with new hydraulic customers in the PRC last year, and the increased investment in infrastructure projects launched by the US government in the US, leading to a strong demand for products in this end-market.

Due to the continuous impact of the pandemic, international travel in the aerospace industry remained at a “near halt” in the first half of this year, resulting in a decrease of 22.2% in product sales revenue in the related aerospace end-market as compared to the same period last year. The medical end-market was benefited from the recovery of customer demand, with revenue increased by 17.5% during the Period.

By End Market	Six months ended 30 June					
	2021		2020		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Automotive	896.5	49.2%	596.7	43.6%	299.8	50.2%
— Passenger Car	509.8	28.0%	394.8	28.8%	115.0	29.1%
— Commercial Vehicle	386.7	21.2%	201.9	14.8%	184.8	91.5%
Industrial & others	786.2	43.1%	614.9	44.9%	171.3	27.9%
— High Horsepower Engine	129.5	7.1%	142.5	10.4%	-13.0	-9.1%
— Hydraulic Equipment	193.2	10.6%	109.6	8.0%	83.6	76.3%
— Construction Equipment	121.7	6.7%	88.0	6.4%	33.7	38.3%
— Agricultural Equipment	120.9	6.6%	82.5	6.0%	38.4	46.5%
— Recreational Boat and Vehicle	87.3	4.8%	48.5	3.6%	38.8	80.0%
— Others	133.6	7.3%	143.8	10.5%	-10.2	-7.1%
Aerospace & Medical	141.2	7.7%	157.0	11.5%	-15.8	-10.1%
— Aerospace	84.9	4.6%	109.1	8.0%	-24.2	-22.2%
— Medical	56.3	3.1%	47.9	3.5%	8.4	17.5%
Total	1,823.9	100.0%	1,368.6	100.0%	455.3	33.3%

In local currencies, the Group’s revenue increased by 27.2% as compared to the six months ended 30 June 2020. This growth rate is lower than the reported growth rate in revenue because of the appreciation of RMB and Euro against HK\$ during the six months ended 30 June 2021 of 9.0% and 9.1%, respectively, as compared to the last corresponding period.

Chairman's Statement

Revenue by business segment

In respect of revenue by business segment, the precision machining business of the Group grew strongly, mainly due to the significant recovery of customer demand for the Group's precision machining plant in Turkey, a record high revenue of approximately EUR40 million was recorded during the Period. In addition, benefitting from the successful development of a large number of new hydraulic models with local hydraulic customers in the PRC last year, the demand for the Group's precision machining products in the PRC has grown strongly, driving the overall revenue of this business segment of the Group to grow by 73.9% year-on-year. In the first half of this year, the Group's revenue from surface treatment segment rose by 48.0% year-on-year due to the recovery of the automotive industry in the PRC.

By Business	Six months ended 30 June					
	2021		2020		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Investment casting	749.0	41.1%	661.1	48.3%	87.9	13.3%
Precision machining	679.0	37.2%	390.4	28.5%	288.6	73.9%
Sand casting	247.3	13.6%	216.7	15.8%	30.6	14.1%
Surface treatment	148.6	8.1%	100.4	7.4%	48.2	48.0%
Total	1,823.9	100.0%	1,368.6	100.0%	455.3	33.3%

Revenue by geographical market

In the first half of this year, the Group achieved remarkable revenue growth of 41.7%, 34.9% and 25.9% in Europe, Asia and Americas, respectively.

By Geographical Market	Six months ended 30 June					
	2021		2020		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Americas	717.8	39.3%	570.2	41.6%	147.6	25.9%
— United States	659.2	36.1%	528.6	38.6%	130.6	24.7%
— Others	58.6	3.2%	41.6	3.0%	17.0	40.9%
Europe	606.6	33.3%	428.0	31.3%	178.6	41.7%
Asia	499.5	27.4%	370.4	27.1%	129.1	34.9%
— the PRC	456.1	25.0%	344.4	25.2%	111.7	32.4%
— Others	43.4	2.4%	26.0	1.9%	17.4	66.9%
Total	1,823.9	100.0%	1,368.6	100.0%	455.3	33.3%

MARKET AND BUSINESS REVIEW

Throughout the first half of 2021, under the continuous spread of COVID-19, although the global economy has not returned to pre-pandemic level, the Group has seen a strong recovery in certain segment end-markets, such as commercial vehicle, hydraulic equipment, recreational boat and vehicle, and the number of new orders in some end-markets has even exceeded the highest level in history. At the same time, the Group has also acquired a number of new customers and businesses during the Period. Though the current aerospace business market recovery is relatively slow, the number of newly developed aerospace SKUs of the Group in the first half of 2021 increased by 36.8% year-on-year to 119 units, reaching a record high. With the gradual recovery of the aerospace business market, it is expected that the business in the aerospace segment will likely show a more significant recovery next year.

In order to mitigate geopolitical risks and uncertainties in transportation costs, the Group has commenced the construction of five production plants in the Mexico SLP Campus, of which the construction of the precision machining plant has been officially completed in June this year and we have gradually moved into the new plant for production and operation. The sand casting plant and the investment casting plant will be put into production respectively from the third quarter of 2021 to the first quarter of 2022, while the construction of the aerospace components and surface treatment plants have also commenced, the infrastructure of which is scheduled to be completed in the fourth quarter of 2021 and it is planned to commence production in the second half of 2022. Both new and existing customers consider that the Group's "Twin Source Production" is able to strategically minimize potential supply chain and tariff risks caused by geopolitics, and effectively reduce ocean freight expenses and significantly save overall supply chain costs.

The Group has strategically located its production facilities in the PRC, Europe and North America. Currently, the Group has 19 plants (including those under construction) in the PRC, Turkey, Germany, Czech Republic and Mexico. This global strategic layout allows the Group to serve global customers more efficiently, minimize geopolitical risks and reduce supply chain costs, and quickly increase production capacity to cope with the increased orders after the pandemic. In consideration of improving operational performance, the Group decided to close down an investment casting components plant in Germany to consolidate the production lines in southern and northern Germany, resulting in a one-off staff severance and related expenses of HK\$30.2 million, net of tax.

In the first half of this year, the rising raw materials, ocean freight and manpower costs have actually caused greater periodic cost pressure to the Group. Meanwhile, due to the shortage of shipping container resources, the shipment period from the PRC to the United States increased from approximately 35 days before the pandemic to approximately 50-93 days in the second quarter of this year, which also increased the delivery pressure and operating cost pressure. With the belief that customer's interests are of the first priority and in order to meet the increasing customer demand for the products and to cope with the significantly extended shipping time, the Group has adopted more costly modes of transportation (such as air freight) for some products to deliver orders to customers, thus incurring additional transportation costs. The Group has negotiated and concluded price adjustment proposal with its customers, with most of the raw material prices and exchange rates being adjusted from the second half of the year as agreed, and most of the incremental ocean freight rate being passed on to customers from the second half of the year. This measure will provide significant relief to cost pressures in the second half of the year, which will lay a foundation for the stability and growth of the Group's future results.

Chairman's Statement

BUSINESS OUTLOOK

Looking ahead, the global economy is expected to continue its gradual recovery from the second half of 2021 as vaccination programmes continue to be actively promoted globally. The number of customer orders and the order forecast in the automotive end-market served by the Group will continue to rise, especially due to the fact that the Group has benefited greatly from the strengthening of the implementation of National VI emission standards for commercial vehicles by the PRC government since 1 July 2021, and the orders for components of commercial vehicles under the new emission standards will continue to increase. In the industrial end-market served by the Group, driven by the demand for large-scale infrastructure projects supported by the Biden government, the demand for construction equipment and commercial vehicles in North America will continue to rise, while the demand for hydraulic equipment related to construction equipment will also record a strong growth. In addition, affected by the global pandemic, private high-end travel has led to a significant increase in the demand for recreational boats and vehicles in the Americas. In the aerospace and medical end-markets, it is believed that the orders from the Group's aerospace customers will begin to see an increase in demand in the second half of this year as the aerospace industry will recover from the gradual easing of restrictions on cross-border travel due to the promotion of vaccinations. As for the medical end-market, the growth of consumer demand in the medical and health industry in the post-pandemic era will become the norm, which will continue to promote the medical components business development of the Group.

As of 31 July 2021, the Group's total order on hand to be fulfilled in the next twelve months amounted to HK\$3,166 million, representing a year-on-year increase of 57.7% or an increase of 20.7% when compared to the order on hand amount as of 28 February 2021 as disclosed in 2020 Annual Report. In view of the continuous positive market demand, the Group has decided to accelerate the construction and expansion of production capacity of the investment casting and aerospace components plant in Mexico, the Xishan base in the PRC and the plant in Turkey. The Group has also decided to increase the capital expenditure budget for the year by approximately HK\$0.3 billion to approximately HK\$1.18 billion. With the commencement of production of the core production plants of Impro Mexico SLP Campus, namely the precision machining plant, the sand casting plant and the investment casting plant during the year and in the first quarter of 2022, as well as the commencement of production of the aerospace components and surface treatment plant in Mexico in the second half of 2022, together with the increased production capacity of the plants in the PRC and Turkey, the Group will be in a better position to capture new orders from customers after the pandemic. At the same time, having different production bases of supply will give the Group more flexibility in its business operations and enable it to better mitigate potential supply chain and tariff risks arising from geopolitics and enhance the overall performance of its operations, which are believed to be the core competitive advantages of the Group.

Looking forward, driven by the rising demand, coupled with the slowdown in certain raw material price increase, the agreement reached with major customers in the first half of this year to adjust product prices and incremental ocean freight rate, and the optimization of internal processes to improve operational efficiency, the Group is expected to gradually improve its profit margin in the future. At the same time, the Group will continue to strengthen its research and development capabilities in addition to expanding its production capacity to provide customers with more diversified and customized products and services. Leveraging on the global production base and capacity expansion of the Group, it will consolidate and expand its global customer base, seize the business opportunities arising from the recovery of market demand after the pandemic, and strive to achieve sustainable profit growth and create better returns for its Shareholders in the long run.

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

LU Ruibo

Chairman and Chief Executive Officer

Hong Kong, 12 August 2021

Management Discussion and Analysis

FINANCIAL PERFORMANCE

HK\$ million	Six months ended 30 June		
	2021	2020	Change
Revenue	1,823.9	1,368.6	33.3%
Gross profit	498.3	365.9	36.2%
Gross profit margin	27.3%	26.7%	0.6%
Other revenue	15.1	27.9	-45.9%
Other net (loss)/income	(37.3)	2.8	-1,432.1%
Impairment loss of goodwill and other assets	–	(445.2)	-100%
Selling and distribution expenses	(90.6)	(58.7)	54.3%
Administrative and other operating expenses	(142.4)	(119.3)	19.4%
Profit/(loss) from operations	243.1	(226.6)	207.3%
Operating profit/(loss) margin	13.3%	-16.6%	29.9%
Net finance costs	(10.0)	(9.3)	7.5%
Profit/(loss) before taxation	233.1	(235.9)	198.8%
Income tax	(56.5)	(32.4)	74.4%
Adjusted effective tax rate ¹	21.5%	16.0%	5.5%
Profit/(loss) for the period	176.6	(268.3)	165.8%
Net profit/(loss) margin	9.7%	-19.6%	29.3%
Attributable to:			
Equity shareholders of the Company	175.0	(269.9)	164.8%
Non-controlling interest	1.6	1.6	0%
	176.6	(268.3)	165.8%

Note:

1 Adjusted effective tax rate is computed as below:

	Six months ended 30 June	
	2021 HK\$ million	2020 HK\$ million
Profit/(loss) before taxation	233.1	(235.9)
Add:		
— impairment loss of goodwill and other assets	–	445.2
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant	30.2	–
Adjusted profit before taxation	263.3	209.3
Income tax	(56.5)	(32.4)
Add: tax impact on impairment loss of goodwill and other assets	–	(1.0)
Adjusted income tax	(56.5)	(33.4)
Adjusted effective tax rate	21.5%	16.0%

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue for the period ended 30 June 2021 increased by 33.3% compared to last corresponding period to HK\$1,823.9 million.

Gross profit and gross profit margin

The Group's gross profit increased by HK\$132.4 million, or 36.2% to HK\$498.3 million for the period ended 30 June 2021 as compared to HK\$365.9 million for the period ended 30 June 2020. The gross profit of precision machining has experienced a strong rebound of HK\$102.7 million, or 130.3% to HK\$181.5 million during the Period, mainly due to strong automotive sales attained in Europe region. The gross profit of the surface treatment business also increased HK\$17.2 million, or 65.3% to HK\$43.5 million. Similarly, the gross profit of investment casting and sand casting business also increased mildly by HK\$10.7 million and HK\$1.8 million respectively to HK\$214.3 million and HK\$59.1 million respectively during the period.

The Group's gross profit margin was 27.3% for the period ended 30 June 2021, compared to 26.7% in the last corresponding period. The increase in gross profit margin was mainly attributable to higher customer demand of our products, partially offset by the increase in raw materials prices, higher staff costs, higher sub-contracting fees and the negative impact from appreciation in RMB versus Hong Kong dollars in this period.

Other revenue

The Group's other revenue during the period ended 30 June 2021 decreased by HK\$12.8 million to HK\$15.1 million (six months ended 30 June 2020: HK\$27.9 million). Other revenue mainly represented various discretionary incentives from the local PRC governments in relation to technology development and other incentive programs.

Other net (loss)/income

The Group recorded other net loss of HK\$37.3 million for the period ended 30 June 2021 (six months ended 30 June 2020: other net gain of HK\$2.8 million). Other net loss mainly represented a provision of staff severance and related expense of HK\$30.2 million in relation to the closure of a Germany production plant and the net foreign exchange loss of HK\$7.0 million arising mainly from the fluctuations of RMB against Hong Kong Dollars during the Period.

Selling and distribution expenses

The Group's selling and distribution expenses increased by HK\$31.9 million or 54.3% to HK\$90.6 million for the period ended 30 June 2021. Apart from the increase in U.S. special custom duties of HK\$10.3 million, a staggering increase was from air and ocean freight expenses of HK\$23.3 million arising from the significant extension of the international shipping cycle and the severe shortage of container space. Selling and distribution expenses to revenue ratio was 5.0% for the period (six months ended 30 June 2020: 4.3%).

Administrative and other operating expenses

The Group's administrative and other operating expenses increased by HK\$23.1 million, or 19.4%, to HK\$142.4 million for the period ended 30 June 2021, as compared to HK\$119.3 million for the last corresponding period. Staff costs in particular has increased by HK\$12.6 million during the Period, mainly due to salary inflation and the negative impact from appreciation in RMB versus Hong Kong dollars in this period. Depreciation expenses also increased by HK\$6.7 million during the period, reflecting an increase in capital expenditure incurred in recent periods.

Net finance costs

The Group's net finance costs increased slightly to HK\$10.0 million for the period ended 30 June 2021 from HK\$9.3 million for the last corresponding period. The increase was mainly due to the increase in bank loans drawdown for capex payments during the Period.

Income tax

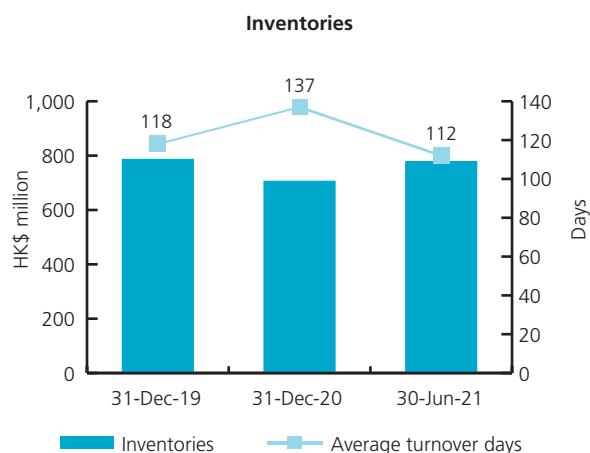
The Group's income tax expense increased to HK\$56.5 million for the period ended 30 June 2021 from HK\$32.4 million for the last corresponding period. A higher income tax expenses during the period was mainly due a higher taxable income from the Turkey plant, as well as an increase in corporate income tax rate from 22% to 25% in Turkey.

Working Capital

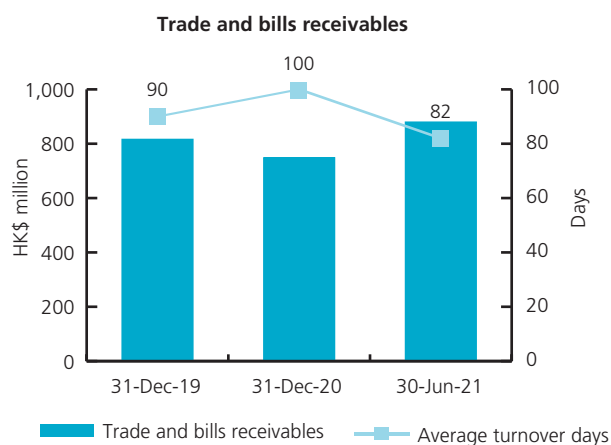
HK\$ million	As at 30 June 2021	As at 31 December 2020
Inventories	777.2	705.3
Trade and bills receivables	879.5	748.1
Prepayments, deposits and other receivables	117.3	74.3
Trade payables	(360.8)	(280.1)
Other payables and accruals	(262.4)	(196.2)
Deferred income	(69.3)	(59.4)
Defined benefit retirement plans obligation	(76.8)	(77.8)
Total working capital	1,004.7	914.2

Management Discussion and Analysis

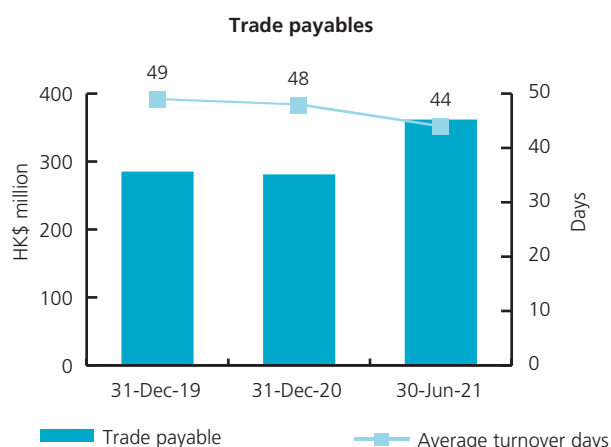
Inventories increased HK\$71.9 million to HK\$777.2 million as of 30 June 2021 (31 December 2020: HK\$705.3 million) in response to the growth in sales during the period. However, as customer demand outstripped supply, the Group's finished goods actually decreased by HK\$12.0 million to HK\$299.8 million as at 30 June 2021 (31 December 2020: HK\$311.8 million). It was also evident in a decrease in inventory turnover days to 112 days as at 30 June 2021 from 137 days as at 31 December 2020.



Trade and bills receivables increased HK\$131.4 million to HK\$879.5 million as of 30 June 2021 (31 December 2020: HK\$748.1 million) due to increase in sales. Trade receivables turnover days decreased from 100 days as at 31 December 2020 to 82 days as at 30 June 2021, mainly due to increase in sales during the period and the continued effort made by the Group on the collection of overdue receivables from customers. 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 30 June 2021, current receivables and overdue balances of less than 30 days has maintained at 94.1% (31 December 2020: 94.8%) of the balance of the gross trade and bills receivables.



Trade payables increased HK\$80.7 million to HK\$360.8 million as of 30 June 2021 (31 December 2020: HK\$280.1 million). The increase was mainly due to increase in purchases which was consistent with the business growth during the period. Trade payable turnover days as at 30 June 2021 decreased mildly to 44 days as compared to 48 days as at 31 December 2020.



EBITDA and net profit/(loss)

The Group's EBITDA (earnings before interest, taxation, depreciation and amortization) was HK\$447.2 million, or EBITDA margin of 24.5%, as compared to a loss of HK\$35.4 million, or EBITDA margin of -2.6% in last corresponding period. Profit attributable to shareholders of the Company was HK\$175.0 million, as compared to a loss of HK\$269.9 million from last corresponding period. Net profit margin for the period was 9.7%, as compared to -19.6% in last corresponding period.

Excluding the impact of provision for staff severance and related expenses and impairment of goodwill and other assets, the Group's adjusted EBITDA margin was 26.2%, which was 3.7% lower than 29.9% attained in last corresponding period, and the adjusted profit attributable to shareholders of the Company was HK\$214.2 million for the period ended 30 June 2021, an increase of 17.1% as compared to HK\$182.9 million from last corresponding period. Adjusted net profit margin was 11.8% for the period ended 30 June 2021, as compared to 13.5% attained in last corresponding period.

Financial resources and liquidity

As at 30 June 2021, the total assets of the Group increased by 7.5% to HK\$6,099.2 million and shareholders' equity increased by 4.2% to HK\$4,202.6 million as compared to the amount as at 31 December 2020. The increase of total assets was mainly attributable to the addition in construction in progress and property, plant and equipment as the Group continued its investment in plants construction at Mexico. The Group's current ratio as at 30 June 2021 was 1.85, as compared to 2.12 as at 31 December 2020. The change in current ratio was primarily due to the decrease in cash and cash equivalents to meet the increase in capex payments in current period.

The Group continues to adopt a prudent financial management and treasury policy to the effect that the Group can maintain a healthy financial position through different business cycles and achieve a long-term sustainable growth. The Group's business requires a significant amount of working capital for the purchase of raw materials, capital spending and product development cost which are financed by the Group's internal working capital as well as the bank loans facilities from various banks.

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

	Six months ended 30 June	
	2021 HK\$ million	2020 HK\$ million
Cash generated from/(used in):		
Operating activities	311.0	452.4
Investing activities	(571.2)	(167.7)
Financing activities	45.3	(289.7)
Net movement in cash	(214.9)	(5.0)

Management Discussion and Analysis

Cash flows generated from operating activities was HK\$311.0 million, a decrease of HK\$141.4 million compared to HK\$452.4 million in the last corresponding period. The decrease in cash flows from operating activities was mainly due to higher working capital on trade and bills receivables and inventories.

Cash flows used in investing activities was HK\$571.2 million, an increase of HK\$403.5 million compared to HK\$167.7 million in the last corresponding period. The major items on investing activities were payment of capital expenditure which include purchases of machinery, equipment, tooling and infrastructure amounted to HK\$538.6 million.

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

	Six months ended 30 June	
	2021 HK\$ million	2020 HK\$ million
Payment of property, plant and equipment	(538.6)	(152.8)
Payment for deferred expenses	(35.7)	(29.9)
Others	3.1	15.0
Net cash used in investing activities	(571.2)	(167.7)

Cash flows generated from financing activities was HK\$45.3 million, compared to cash flows used in financing activities of HK\$289.7 million in last corresponding period. Major movements during the period mainly the proceeds from bank loans of HK\$486.8 million, repayment of bank borrowings of HK\$377.6 million and 2020 final dividend payment of HK\$33.9 million.

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

	Six months ended 30 June	
	2021 HK\$ million	2020 HK\$ million
Proceeds from bank loans	486.8	501.2
Repayment of bank loans	(377.6)	(672.2)
Lease rentals paid	(18.2)	(37.3)
Dividend paid	(33.9)	(60.3)
Interest paid	(11.8)	(21.1)
Net cash generated from/(used in) financing activities	45.3	(289.7)

Indebtedness

As at 30 June 2021, the Group's total borrowings was HK\$944.2 million, an increase of HK\$90.4 million from HK\$853.8 million as at 31 December 2020. The increase in borrowings was due to increase in capex during the period, and is mainly on non-current bank loans as a result of management's effort to extend the average repayment period of the bank loans portfolio.

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

	As at 30 June 2021 HK\$ million	As at 31 December 2020 HK\$ million
Current bank loans	470.3	460.9
Non-current bank loans	450.5	355.3
Current lease liabilities	12.3	24.6
Non-current lease liabilities	11.1	13.0
Total borrowings	944.2	853.8

As at 30 June 2021, the Group had total banking facilities available for draw-down of HK\$1,157.8 million.

The Group's net gearing ratio as at 30 June 2021 was 13.2% (31 December 2020: 6.2%). This ratio is based on total borrowings less cash and cash equivalents divided by total equity. The gearing ratio has increased during the period was mainly due to increase in borrowing to finance the plants construction at Mexico.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. Capital expenditures of the Group amounted HK\$551.2 million for the six months ended 30 June 2021 which was primarily used in the production capacity expansion in our PRC plants, as well as the infrastructure and machinery spending for the new plants in Mexico. Among which, the Group incurred HK\$305.7 million for the construction of new plants in Mexico, including the purchases of machinery for and construction of precision machining, sand casting, investment casting, aerospace and surface treatment plants. Capital commitments contracted for but not incurred by the Group as at 30 June 2021 amounted to HK\$542.3 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\$10.4 million (31 December 2020: HK\$15.7 million) were pledged as security for bank borrowings as at 30 June 2021.

Management Discussion and Analysis

Contingent Liabilities

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 for the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People’s Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People’s Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the Company’s prospectus dated 18 June 2019 issued for the Global Offering and in the Chairman’s Statement, the Group did not have other future plans for material investments or capital assets.

Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries during the six months ended 30 June 2021.

Treasury Policies and Exposure to Fluctuation in Exchange Rates

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

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

To reduce the exposure to foreign currency exchange risk, the Group’s management monitors the foreign exchange rates from time to time and may adjust the currency mix of the loan portfolio in a proportion that resembled the respective underlying sales currency proportion with a view to reduce the impact of exchange rate fluctuations. As at 30 June 2021, the borrowings of the Group were denominated in Hong Kong dollar, US dollar, RMB and Euro dollar, in which, HK\$80.9 million of borrowings were at fixed interest rates.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the six months ended 30 June 2021, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 30 June 2021, the Group had 7,011 full-time employees of whom 5,795 were from Mainland China and 1,216 were from Turkey, Germany, Mexico, Hong Kong, United States, and other countries. Total staff costs, including the emoluments of the Directors, amounted to HK\$547.1 million for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$379.3 million).

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

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

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 30 June 2021 on a pro rata basis except for repayment of interest-bearing bank borrowings.

The table below sets forth the actual use of the Net Proceeds from the Global Offering up to the period ended 30 June 2021:

Business strategies as set out in the Prospectus	Intended timeframe for the use of the Net Proceeds	Planned Proceeds as stated in Prospectus		Actual amount of the Net Proceeds		Utilized amount of the Actual Amount of Net Proceeds as at 30 June 2021	Unutilized amount of the Actual Amount of Net Proceeds as at 30 June 2021
		HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	HK\$ million
Capital expenditures for production							
capacity expansion	By 2020	361.3	40.0%	437.9	42.5%	437.9	–
Repayment of interest-bearing bank borrowings	By 2020	271.1	30.0%	271.1	26.3%	271.1	–
Acquisition of business (note 1)	By 2023	180.7	20.0%	219.0	21.2%	–	219.0
Working capital and general corporate purpose	By 2020	90.4	10.0%	103.5	10.0%	103.5	–
		903.5	100.0%	1,031.5	100.0%	812.5	219.0

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 report, 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 30 June 2021 will be fully utilized by 31 December 2023.

Further Information on the Group

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Taking into consideration the profitability of the Group and the financial resources required for business expansion, the Board has resolved to declare an interim dividend of 2.9 HK cents per Share (six months ended 30 June 2020: 2.4 HK cents per Share) for the six months ended 30 June 2021 in the total amount of approximately HK\$54.6 million (six months ended 30 June 2020: HK\$45.2 million). Relevant dates for interim dividend payment are set out below.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	25 August 2021
Closure of register of members	27 August to 31 August 2021 (both days inclusive)
Record date	31 August 2021
Dividend payment date	on or before 9 September 2021

In order to qualify for the interim dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration by 4:30 p.m. on Thursday, 26 August 2021.

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

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the code provisions of the CG Code and to a large extent the recommended best practices in the CG Code during the six months ended 30 June 2021, except for the deviation from code provision A.2.1 of the CG Code as described below.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the six months ended 30 June 2021.

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

As of 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the Shares, the underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

THE COMPANY AND ASSOCIATED CORPORATION

(i) Long positions in the Shares and underlying Shares of the Company

Name of Directors	Nature of interest/ capacity	Number of Shares or underlying Shares	Percentage of the Company's issued share capital
Mr. LU Ruibo ("Mr. LU")	Interest in a controlled corporation ⁽¹⁾	1,138,245,787	60.44
	Spouse interest ⁽²⁾	1,500,000	0.08
	Beneficial owner	9,239,000	0.49
Ms. WANG Hui, Ina ("Ms. WANG")	Beneficial owner ⁽²⁾	1,500,000	0.08
	Spouse interest ⁽³⁾	1,147,484,787	60.93
Mr. YU Yuepeng	Beneficial owner ⁽⁴⁾	1,500,000	0.08
Ms. ZHU Liwei	Beneficial owner ⁽⁵⁾	1,500,000	0.08
Mr. WANG Dong	Beneficial owner ⁽⁶⁾	1,500,000	0.08

Further Information on the Group

(ii) Interest in associated corporation

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

Notes:

- (1) All issued shares of Impro Development Limited ("Impro Development") are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development. Accordingly, Mr. LU is deemed to be interested in the 1,138,245,787 Shares held by Impro Development under the SFO.
- (2) Ms. WANG was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (3) Ms. WANG is the spouse of Mr. LU and is deemed to be interested in the shares which Mr. LU is interested in pursuant to Divisions 7 and 8 of Part XV and section 352 of the SFO. She is neither a director of Impro Development nor holds any interest, beneficial or otherwise, in the issued shares of Impro Development.
- (4) Mr. YU Yuepeng was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (5) Ms. ZHU Liwei was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (6) Mr. WANG Dong was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

Save as disclosed above, as at 30 June 2021, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have any interests or short positions in any of the Shares or the underlying Share and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 30 June 2021, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled company) in the Shares and the underlying Shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Name of substantial shareholders	Nature of interest/capacity	Number of Shares held	Percentage of the Company's issued share capital
Impro Development	Beneficial owner	1,138,245,787	60.44
Mr. LU	Interest in controlled corporation and beneficial owner	1,147,484,787	60.93
	Spouse Interest	1,500,000	0.08
Baring Private Equity Asia V Holding (2) Limited ("Baring") ⁽¹⁾	Beneficial owner	237,153,654	12.59
Casting Holdings Limited ⁽¹⁾⁽²⁾	Interest in controlled corporation	237,153,654	12.59
The Baring Asia Private Equity Fund V, L.P. ⁽²⁾	Interest in controlled corporation	237,153,654	12.59
Baring Private Equity Asia GP V, L.P. ⁽²⁾	Interest in controlled corporation	237,153,654	12.59
Baring Private Equity Asia GP V Limited ⁽²⁾	Interest in controlled corporation	237,153,654	12.59
Jean Eric Salata Rothleder ⁽²⁾	Interest in controlled corporation	237,153,654	12.59
GT Cedar Capital (Hong Kong) Limited ("GT Cedar") ⁽³⁾	Beneficial owner	104,205,123	5.53
Genertec Investment Management Co. Ltd. ⁽⁴⁾	Interest in a controlled corporation	104,205,123	5.53
China General Technology (Group) Holding Company Limited ⁽⁴⁾	Interest in a controlled corporation	104,205,123	5.53

Notes:

- (1) Baring is wholly-owned by Casting Holdings Limited. Casting Holdings Limited is owned as to 99.35% by The Baring Asia Private Equity Fund V, L.P. and 0.65% by The Baring Asia Private Equity Fund V Co-Investment L.P.
- (2) Each of Casting Holdings Limited, The Baring Asia Private Equity Fund V, L.P. (as the controlling shareholder of Casting Holdings Limited), Baring Private Equity Asia GP V, L.P. (as the general partner of The Baring Asia Private Equity Fund V, L.P.), Baring Private Equity Asia GP V Limited (as the general partner of Baring Private Equity Asia GP V, L.P.), and Mr. Jean Eric Salata Rothleder (as the sole shareholder of Baring Private Equity Asia GP V Limited) are deemed to be interested in the Shares held by Baring. Mr. Jean Eric Salata Rothleder disclaims beneficial ownership of the Shares held by Baring, except to the extent of his economic interest in such entities.
- (3) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.
- (4) Genertec Investment Management Co. Ltd. is owned as to 99.7% by China General Technology (Group) Holding Company Limited and 0.3% by China National Technical Import & Export Corporation, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd. and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares held by GT Cedar.

Further Information on the Group

Save as disclosed above, as at 30 June 2021, the Directors are not aware of any persons other than the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

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

As at 30 June 2021, the Company had granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and no option had been granted under the Post-IPO Share Option Scheme.

PRE-IPO SHARE OPTION SCHEME

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

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

The table below sets forth the movement of share options granted to Directors and other grantees under the Pre-IPO Share Option Scheme during the six months ended 30 June 2021:

Grantees	Date of grant	Exercise price per option	Exercise period	Number of options ⁽¹⁾					
				Outstanding as of 1 January 2021	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as of 30 June 2021
Directors									
Ms. WANG Hui, Ina	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Mr. YU Yuepeng	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Ms. ZHU Liwei	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Mr. WANG Dong	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Other employees	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	20,635,000	–	–	–	(522,500)	20,112,500
				26,635,000	–	–	–	(522,500)	26,112,500

Notes:

- (1) Number of options refers to the number of underlying Shares of the Company covered by the options under the Pre-IPO Share Option Scheme.
- (2) These options shall vest in 3 equal tranches. The three tranches are exercisable during a period of 180 days immediately after the third, fourth and fifth anniversary of the Listing Date (both days inclusive).
- (3) Since the Company's Share was listed on 28 June 2019, the closing price of the Company's shares immediately before the date on which the share options were granted was not applicable.
- (4) Share options to subscribe for 522,500 shares lapsed during the six months ended 30 June 2021 following the cessation of employment of certain grantees.

The total number of Shares of the company that would be issued upon the exercise of all outstanding share options as at the date of this report are 26,112,500 which represents approximately 1.4% of the issued share capital of the Company as at the date of this report.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme during the six months ended 30 June 2021.

POST-IPO SHARE OPTION SCHEME

The following is a summary of principal terms of the Post-IPO Share Option Scheme conditionally adopted by our Shareholders on June 15, 2018. The terms of the Post-IPO Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

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

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

Further Information on the Group

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

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

Subject to the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further Options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

The amount payable on acceptance of an Option is HK\$1.00. The subscription price of a Share in respect of any particular Option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of grant; and (iii) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the date of grant.

EVENTS AFTER THE END OF REPORTING PERIOD

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

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE

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

REVIEW OF THE INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2021. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company with senior management members and the external auditor of the Company.

The unaudited interim financial report of the Group for the six months ended 30 June 2021 has also been reviewed by the Company’s external auditor, KPMG, in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the International Auditing and Assurance Standard Board.

Independent Review Report

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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 29 to 54 which comprises the consolidated statement of financial position of Impro Precision Industries Limited as of 30 June 2021 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

12 August 2021

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000
Revenue	4	1,823,930	1,368,631
Cost of sales		(1,325,608)	(1,002,709)
Gross profit		498,322	365,922
Other revenue	5(a)	15,119	27,940
Other net (loss)/income	5(b)	(37,333)	2,840
Impairment loss of goodwill and other assets	10	–	(445,201)
Selling and distribution expenses		(90,646)	(58,744)
Administrative and other operating expenses		(142,424)	(119,305)
Profit/(loss) from operations		243,038	(226,548)
Net finance costs	6(a)	(9,998)	(9,301)
Profit/(loss) before taxation	6	233,040	(235,849)
Income tax	7	(56,459)	(32,402)
Profit/(loss) for the period		176,581	(268,251)
Attributable to:			
Equity shareholders of the Company		175,014	(269,845)
Non-controlling interest		1,567	1,594
Profit/(loss) for the period		176,581	(268,251)
Earnings/(loss) per share			
Basic (HK cents)	8(a)	9.29	(14.33)
Diluted (HK cents)	8(b)	9.28	(14.29)

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021 (unaudited)

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Profit/(loss) for the period	176,581	(268,251)
Other comprehensive income for the period (after tax adjustments)		
<i>Items that will not be reclassified to profit or loss:</i>		
Effect of remeasurement of defined benefit retirement plans obligation	(2,950)	(4,713)
Related tax	69	414
<i>Items that are or 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	26,345	(100,986)
Other comprehensive income for the period (after tax adjustments)	23,464	(105,285)
Total comprehensive income for the period	200,045	(373,536)
Attributable to:		
Equity shareholders of the Company	198,295	(374,918)
Non-controlling interest	1,750	1,382
Total comprehensive income for the period	200,045	(373,536)

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

Consolidated Statement of Financial Position

At 30 June 2021 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Non-current assets			
Property, plant and equipment	9	3,604,141	3,256,627
Prepayments for purchase of property, plant and equipment		82,814	25,333
Intangible assets		51,987	60,315
Goodwill	10	–	–
Deferred expenses		175,542	173,158
Other financial asset		1,692	1,673
Deferred tax assets		17,802	20,268
		3,933,978	3,537,374
Current assets			
Inventories	11	777,229	705,335
Trade and bills receivables	12	879,528	748,106
Prepayments, deposits and other receivables	13	117,324	74,289
Taxation recoverable		3,650	5,206
Cash and cash equivalents	14	387,441	601,985
		2,165,172	2,134,921
Current liabilities			
Bank loans	15	470,256	460,866
Lease liabilities		12,321	24,611
Trade payables	16	360,832	280,143
Other payables and accruals	17	262,380	196,157
Taxation payable		66,792	45,591
		1,172,581	1,007,368
Net current assets		992,591	1,127,553
Total assets less current liabilities		4,926,569	4,664,927

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

Consolidated Statement of Financial Position

At 30 June 2021 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Non-current liabilities			
Bank loans	15	450,509	355,265
Lease liabilities		11,161	13,013
Deferred income		69,349	59,391
Defined benefit retirement plans obligation		76,830	77,824
Deferred tax liabilities		116,157	126,537
		724,006	632,030
NET ASSETS			
		4,202,563	4,032,897
CAPITAL AND RESERVES			
Share capital	18	188,330	188,330
Reserves		3,992,723	3,824,807
Total equity attributable to equity shareholders of the Company			
		4,181,053	4,013,137
Non-controlling interest			
		21,510	19,760
TOTAL EQUITY			
		4,202,563	4,032,897

Approved and authorized for issue by the board of directors on 12 August 2021.

Lu Ruibo

Directors

Wang Hui, Ina

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021 (unaudited)

(Expressed in Hong Kong dollars)

Attributable to equity shareholders of the Company											
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interest	Total equity
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2020		188,330	1,430,278	5,331	217,075	(262,246)	(571)	2,433,789	4,011,986	14,971	4,026,957
Changes in equity for the six months ended 30 June 2020:											
(Loss)/profit for the period		-	-	-	-	-	-	(269,845)	(269,845)	1,594	(268,251)
Other comprehensive income		-	-	-	-	(100,774)	-	(4,299)	(105,073)	(212)	(105,285)
Total comprehensive income		-	-	-	-	(100,774)	-	(274,144)	(374,918)	1,382	(373,536)
Appropriation of dividends	18(a)	-	-	-	-	-	-	(60,265)	(60,265)	-	(60,265)
Equity settled share-based transactions	18(b)	-	-	4,224	-	-	-	-	4,224	-	4,224
Balance at 30 June 2020 and 1 July 2020		188,330	1,430,278	9,555	217,075	(363,020)	(571)	2,099,380	3,581,027	16,353	3,597,380
Changes in equity for the six months ended 31 December 2020:											
Profit for the period		-	-	-	-	-	-	121,654	121,654	2,283	123,937
Other comprehensive income		-	-	-	-	354,448	-	(1,610)	352,838	1,124	353,962
Total comprehensive income		-	-	-	-	354,448	-	120,044	474,492	3,407	477,899
Appropriation of dividends	18(a)	-	-	-	-	-	-	(45,199)	(45,199)	-	(45,199)
Appropriation of reserve		-	-	-	14,264	-	-	(14,264)	-	-	-
Equity settled share-based transactions	18(b)	-	-	2,817	-	-	-	-	2,817	-	2,817
Balance at 31 December 2020		188,330	1,430,278	12,372	231,339	(8,572)	(571)	2,159,961	4,013,137	19,760	4,032,897

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021 (unaudited)

(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company									
		Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Exchange reserve HK\$'000	Fair value	Retained profits HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
							(non-recycling) HK\$'000				
Balance at 1 January 2021		188,330	1,430,278	12,372	231,339	(8,572)	(571)	2,159,961	4,013,137	19,760	4,032,897
Changes in equity for the six months ended 30 June 2021:											
Profit for the period		-	-	-	-	-	-	175,014	175,014	1,567	176,581
Other comprehensive income		-	-	-	-	26,162	-	(2,881)	23,281	183	23,464
Total comprehensive income		-	-	-	-	26,162	-	172,133	198,295	1,750	200,045
Appropriation of dividends	18(a)	-	-	-	-	-	-	(33,899)	(33,899)	-	(33,899)
Equity settled share-based transactions	18(b)	-	-	3,520	-	-	-	-	3,520	-	3,520
Balance at 30 June 2021		188,330	1,430,278	15,892	231,339	17,590	(571)	2,298,195	4,181,053	21,510	4,202,563

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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2021 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000
Operating activities			
Cash generated from operations		350,387	516,153
Tax paid		(39,406)	(63,716)
Net cash generated from operating activities		310,981	452,437
Investing activities			
Payment for the acquisition of property, plant and equipment		(538,666)	(152,774)
Payment for deferred expenses		(35,680)	(29,906)
Other cash flows arising from investing activities		3,129	14,999
Net cash used in investing activities		(571,217)	(167,681)
Financing activities			
Proceeds from bank loans		486,857	501,189
Repayment of bank loans		(377,599)	(672,240)
Interest paid		(11,790)	(21,131)
Dividends paid to equity shareholders of the Company	18(a)	(33,899)	(60,265)
Capital element of lease rentals paid		(17,507)	(35,499)
Interest element of lease rentals paid		(725)	(1,776)
Net cash generated from/(used in) financing activities		45,337	(289,722)
Decrease in cash and cash equivalents		(214,899)	(4,966)
Cash and cash equivalents at 1 January	14	601,985	568,965
Effect of foreign exchange rate changes		355	(4,827)
Cash and cash equivalents at 30 June	14	387,441	559,172

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

Impro Precision Industries Limited (the “Company”) was incorporated in Cayman Islands on 8 January 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 28 June 2019. The Company and its subsidiaries (collectively as the “Group”) are principally engaged in the development and production of a broad range of casting products and precision machining parts and provision of surface treatment services.

2 BASIS OF PREPARATION

This interim financial report of Impro Precision Industries Limited and its subsidiaries (collectively referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorized for issue on 12 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

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

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by IASB to this interim financial report for the current accounting period:

- Amendment to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

Revenue	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Investment casting	748,966	661,061
Precision machining	678,979	390,417
Sand casting	247,382	216,711
Surface treatment	148,603	100,442
	1,823,930	1,368,631

The Group's revenue from contracts with customers were recognized at point in time for the six months ended 30 June 2021 and 2020. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

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

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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(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, 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 adjusted earnings before interest, taxes, depreciation, amortization and impairment loss of goodwill and other assets.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

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 period is set out below:

	Six months ended 30 June 2021				Total HK\$'000
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	
Revenue from external customers	748,966	678,979	247,382	148,603	1,823,930
Inter-segment revenue	–	–	–	15,090	15,090
Reportable segment revenue	<u>748,966</u>	<u>678,979</u>	<u>247,382</u>	<u>163,693</u>	<u>1,839,020</u>
Gross profit from external customers	214,304	181,463	59,064	43,491	498,322
Inter-segment gross profit	–	–	–	5,877	5,877
Reportable segment gross profit	<u>214,304</u>	<u>181,463</u>	<u>59,064</u>	<u>49,368</u>	<u>504,199</u>
Depreciation and amortization	<u>79,780</u>	<u>62,632</u>	<u>36,268</u>	<u>25,476</u>	<u>204,156</u>
Reportable segment profit	<u>205,427</u>	<u>161,599</u>	<u>64,106</u>	<u>57,414</u>	<u>488,546</u>

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

	Six months ended 30 June 2020				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	661,061	390,417	216,711	100,442	1,368,631
Inter-segment revenue	–	–	–	10,552	10,552
Reportable segment revenue	661,061	390,417	216,711	110,994	1,379,183
Gross profit from external customers	203,586	78,798	57,233	26,305	365,922
Inter-segment gross profit	–	–	–	3,273	3,273
Reportable segment gross profit	203,586	78,798	57,233	29,578	369,195
Depreciation and amortization	73,967	57,635	35,724	23,863	191,189
Impairment loss of goodwill and other assets	–	215,071	–	230,130	445,201
Reportable segment profit	202,563	85,352	66,815	41,289	396,019
	As at 30 June 2021				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	2,069,390	2,092,182	991,236	534,310	5,687,118
	As at 31 December 2020				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	1,914,219	1,786,756	816,764	535,180	5,052,919

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Revenue		
Reportable segment revenue	1,839,020	1,379,183
Elimination of inter-segment revenue	(15,090)	(10,552)
Consolidated revenue	1,823,930	1,368,631
Gross profit		
Reportable segment gross profit	504,199	369,195
Elimination of inter-segment gross profit	(5,877)	(3,273)
Consolidated gross profit	498,322	365,922
Profit		
Reportable segment profit	488,546	396,019
Elimination of inter-segment profit	(5,877)	(3,273)
Reportable segment profit derived from Group's external customers	482,669	392,746
Other revenue	15,119	27,940
Other net (loss)/income	(37,333)	2,840
Impairment loss of goodwill and other assets	–	(445,201)
Unallocated head office and corporate expenses	(13,261)	(13,684)
Consolidated profit/(loss) before interest, taxes, depreciation and amortization	447,194	(35,359)
Net finance costs	(9,998)	(9,301)
Depreciation and amortization	(204,156)	(191,189)
Consolidated profit/(loss) before taxation	233,040	(235,849)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Geographical information

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

Revenue from external customers

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Americas		
— United States of America ("United States")	659,239	528,584
— Others	58,606	41,591
Europe	606,564	428,013
Asia		
— The People's Republic of China ("PRC")	456,123	344,373
— Others	43,398	26,070
	1,823,930	1,368,631

Specified non-current assets

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
	United States	9,966
Europe	580,910	620,466
The PRC	2,550,778	2,457,121
Mexico	774,522	427,776
	3,916,176	3,517,106

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(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

(a) Other revenue

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Rental income	53	454
Government grants	12,270	25,592
Others	2,796	1,894
	15,119	27,940

(b) Other net (loss)/income

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Net exchange (loss)/gain	(6,993)	4,015
Net loss on disposal of property, plant and equipment	(399)	(1,329)
Severance costs*	(30,220)	–
Others	279	154
	(37,333)	2,840

* On 12 March 2021, the Group reached an agreement with the labor union of BFG Feinguss Niederrhein GmbH, a wholly-owned subsidiary of the Group incorporated in Germany, pursuant to which that the Group is expected to settle a total of Euro 3,238,000 in cash. Accordingly, severance costs of HK\$30,220,000 was recognized in the Group's consolidated statement of profit or loss during the six months ended 30 June 2021.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Interest income	(2,472)	(12,489)
Interest expenses on bank loans	11,745	20,014
Interest expenses on lease liabilities	725	1,776
	12,470	21,790
Net finance costs	9,998	9,301

(b) Other items

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Cost of inventories recognized as expenses*	1,325,608	1,002,709
Depreciation charges		
— owned property, plant and equipment	150,785	140,594
— right-of-use assets	10,763	12,950
Amortization of intangible assets	7,324	6,728
Amortization of deferred expenses	35,284	30,917
Research and development expenses	66,343	50,262
Reversal of impairment loss on trade and other receivables	(197)	(1,741)
Provision for write-down of inventories	2,736	5,481

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Current tax — PRC Corporate Income Tax		
— Provision for the period	21,916	10,897
— Bonus deduction of research and development expenses	(10,751)	(12,272)
— Under/(over)-provision in respect of prior years	1,604	(385)
Current tax — Hong Kong Profits Tax	4,734	17,449
Current tax — Tax jurisdictions outside PRC and Hong Kong	46,010	2,083
	63,513	17,772
Deferred taxation	(7,054)	14,630
	56,459	32,402

The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2020: 16.5%) to the six months ended 30 June 2021. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$175,014,000 (six months ended 30 June 2020: loss attributable to ordinary equity shareholders of the Company of HK\$269,845,000) and the weighted average of 1,883,295,000 ordinary shares (2020: 1,883,295,000 shares) in issue during the interim period.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$175,014,000 (six months ended 30 June 2020: loss attributable to ordinary equity shareholders of the Company of HK\$269,845,000) and the weighted average of 1,884,990,905 ordinary shares (2020: 1,887,721,249 shares).

9 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into a new lease agreement for use of property, and therefore recognized the additions to right-of-use assets of HK\$4,013,000.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment at a cost of HK\$489,755,000 (six months ended 30 June 2020: HK\$186,189,000). Items of property, plant and equipment with a net book value of HK\$1,030,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$4,126,000), resulting in a loss on disposal of HK\$399,000 (six months ended 30 June 2020: a loss on disposal of HK\$1,329,000).

(c) Impairment losses

During the six months ended 30 June 2021 and 30 June 2020, impairment loss of HK\$0 and HK\$4,811,000 were made on property, plant and equipment.

10 GOODWILL

Since the outbreak of COVID-19 pandemic throughout Europe and North America in March 2020, most of the Group's European and North American customers have implemented various extent of plant shutdowns, which have reduced the Group's revenue and operating profit significantly. The management believes that the high unemployment rate in the short-and-medium period, fuelled by COVID-19 globally, and the threat of a potential second or third COVID-19 wave will, undermine consumers' confidence continually. While growth in demand is anticipated for the medium-and-long-term period, the global impact of the pandemic on Shenhai Group and Cengiz Makina acquired by the Group in 2014 from certain independent third parties that primarily serve the automotive market has been immediate. Taking into account the combined impact of the unprecedented COVID-19 pandemic and the expected slow recovery from market conditions and industry outlook, the management team conducted an impairment test on goodwill and other assets as at 30 June 2020. Accordingly, impairment loss of HK\$439,970,000 was allocated to fully write off the goodwill and impairment loss of HK\$5,231,000 were allocated pro rata to other assets during the six months ended 30 June 2020.

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(Expressed in Hong Kong dollars unless otherwise indicated)

11 INVENTORIES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Raw materials	218,544	192,705
Work in progress	331,880	271,096
Finished goods	299,809	311,767
	850,233	775,568
Write down of inventories	(73,004)	(70,233)
	777,229	705,335

During the six months ended 30 June 2021, the Group recognized a write-down of HK\$2,736,000 (six months ended 30 June 2020: HK\$5,481,000) against those inventories with net realizable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

12 TRADE AND BILLS RECEIVABLES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Trade receivables	794,635	644,348
Bills receivable	96,706	115,799
	891,341	760,147
Less: loss allowance	(11,813)	(12,041)
	879,528	748,106

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

12 TRADE AND BILLS RECEIVABLES (Continued)

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

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Within 1 month	512,882	406,523
1 to 3 months	306,206	284,133
Over 3 months but within 12 months	60,440	57,450
	879,528	748,106

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

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Prepayments	37,356	32,110
Value added tax recoverable	67,270	30,238
Other deposits and receivables	12,698	11,941
	117,324	74,289

14 CASH AND CASH EQUIVALENTS

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Cash at bank	387,073	601,723
Cash on hand	368	262
	387,441	601,985

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15 BANK LOANS

The maturity profile for the interest-bearing bank loans of the Group at the end of each reporting period is as follows:

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Short-term bank loans	293,649	276,366
Current portion of long-term bank loans	176,607	184,500
Within 1 year or on demand	<u>470,256</u>	<u>460,866</u>
After 1 year but within 2 years	195,136	171,954
After 2 years but within 5 years	<u>255,373</u>	<u>183,311</u>
	<u>450,509</u>	<u>355,265</u>
	920,765	816,131

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

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Bank loans		
— Secured	8,775	12,337
— Unsecured	911,990	803,794
	920,765	816,131

Certain banking facilities of the Group are subject to the fulfilment of financial covenants relating to certain of the financial ratios of the Group or the subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. As at 30 June 2021 and 31 December 2020, none of the covenants relating to drawn down facilities had been breached.

16 TRADE PAYABLES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Trade payables	360,832	280,143

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

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

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Within 1 month	228,646	158,914
1 to 3 months	122,531	109,092
Over 3 months	9,655	12,137
	360,832	280,143

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17 OTHER PAYABLES AND ACCRUALS

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Other payables (Note)	226,531	167,560
Accrued expenses	35,849	28,597
	262,380	196,157

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

Note:

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

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Deferred consideration payable	23,852	23,581
Salaries, wages, bonus and benefits payable	114,937	75,171
Payables for purchase of property, plant and equipment	26,305	17,735
Contract liabilities	6,527	6,314
Other tax payable	12,814	8,629
Others	42,096	36,130
	226,531	167,560

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Dividend declared after the end of each reporting period of HK\$0.029 per share (six months ended 30 June 2020: HK\$0.024 per share)	54,616	45,199

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

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

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Dividend in respect of the previous financial year, approved and paid during the interim period, of HK\$0.018 per share (six months ended 30 June 2020: HK\$0.032 per share)	33,899	60,265

(b) Equity settled share-based transactions

On 28 June 2019, 30,230,000 share options were granted for consideration of HK\$1.00 each to directors, senior management and employees of the Group in three tranches under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 28 June 2022, 28 June 2023 and 28 June 2024, and then be exercisable until 24 December 2022, 24 December 2023 and 24 December 2024 respectively in tranches. The exercise price is HK\$2.40, being 20% discount to the initial public offering price of the Company's ordinary shares.

No options were exercised during the six months ended 30 June 2021 (2020: nil).

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

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19 COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Contracted for	542,269	583,117
Represented by:		
Construction of plants	213,315	305,789
Acquisition of machinery	328,954	277,328
	542,269	583,117

20 CONTINGENT LIABILITIES

On 24 September 2011, a fire accident was incurred on the plant of Shenhai Industrial. Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the "Insurer"). On 12 May 2015, the Supreme People's Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK\$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People's Procuratorate of the PRC in 2016. As of the date of this report, the Supreme People's Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Pursuant to the board meeting on 12 August 2021, the directors resolved to declare an interim dividend of HK\$0.029 per share. Further details are disclosed in Note 18(a).