鷹普精密工業有限公司

Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1286

2019 ANNUAL REPORT

Contents

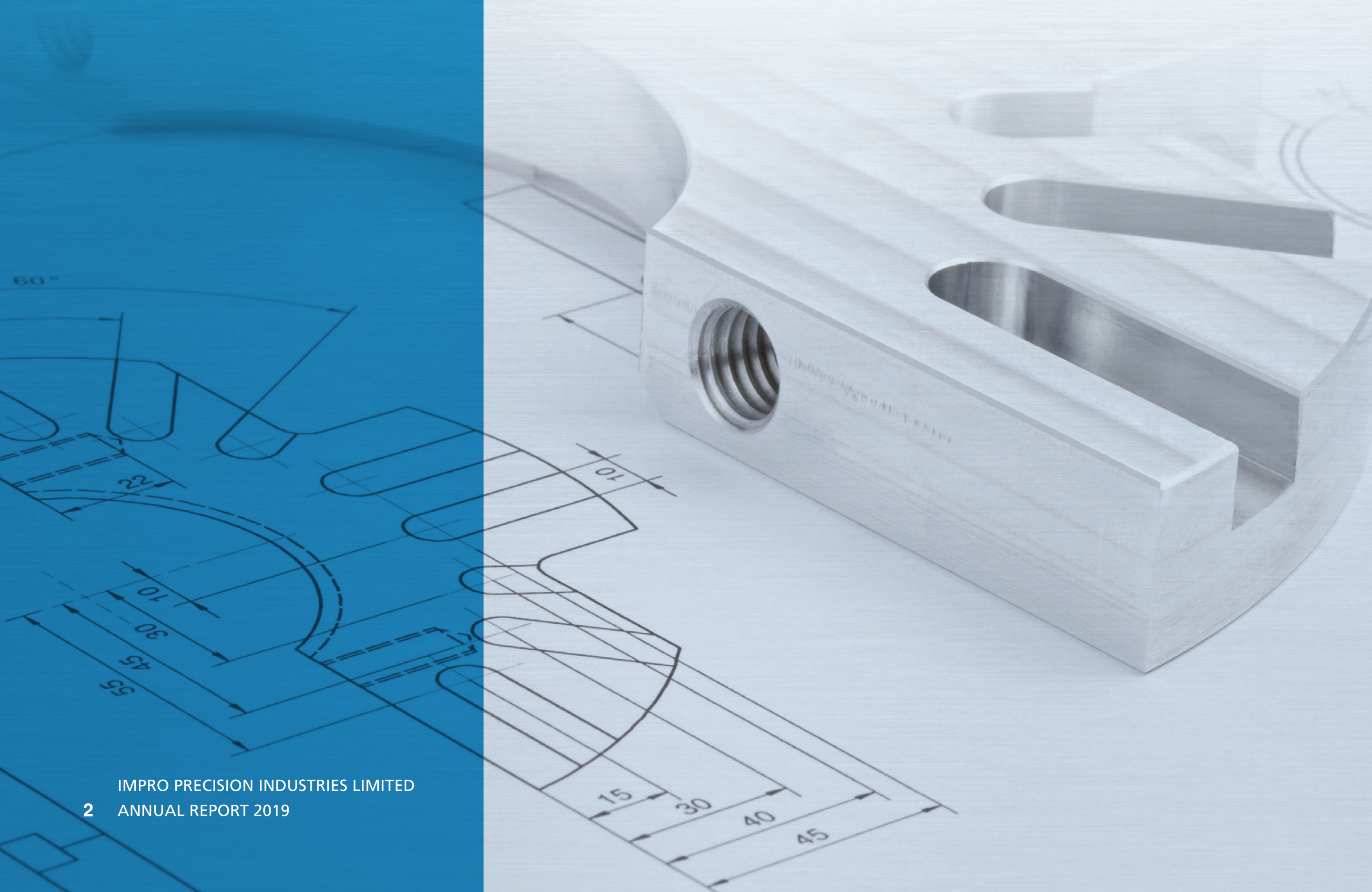
About Us

Impro Mission

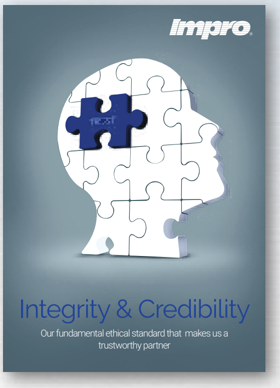
To be the global leader in high precision, high complexity, mission-critical components and solutions; and to be a reliable, flexible and global business partner to industry leaders.

Impro Vision

To be an enterprise truly valued by our customers, stockholders, employees, and the society at large.

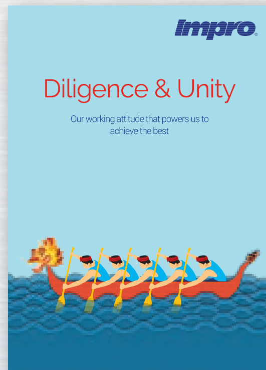


Impro Core Values



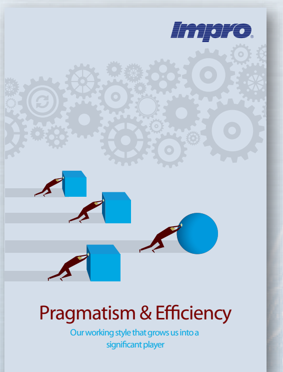
Integrity and Credibility

It means following through on the promises we make, and conducting business ethically and responsibly. At Impro, this is a critical element of everything we do. It guides our every action and reinforces our commitment to honesty, transparency, business ethics and regulatory compliance, both within our company and in the outside world.



Diligence and Unity

It means not only committing to one's work but also ensuring that the work one does is done thoroughly. It also means that collaboration is our route to success. We believe that creating team-based work will enable individuals to contribute in their areas of strength and improve in areas where development is needed. At Impro, Diligence underlies all of our work processes; through Unity, we can achieve more than through working alone.



Pragmatism and Efficiency

It means being practical in all situations, driving towards results and minimizing non-value added activities. At Impro, Pragmatism is the roadmap to execution, and Efficiency drives all of our actions. It frames the way we view our path forward and enables us to achieve results by seeing each challenge as it really is. It means that we minimize waste of all sorts, including duplicate processing or downtime.

Pursuit of Excellence and Innovation

It means always careful attention to detail, looking for ways to improve on activities done in the past and challenging conventions and thinking outside of the box in all areas of the business. At Impro, the Pursuit of Excellence sets us apart. We're committed to putting our all into every task we undertake, and making sure that we strive for perfection. Innovation allows us to reframe problems and see solutions that others may not see. It is the way we continuously improve.

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

AUTHORIZED REPRESENTATIVES

Mr. LU Ruibo
Mr. IP Wui Wing Dennis

COMPANY SECRETARY

Mr. IP Wui Wing Dennis, *CPA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN CHINA

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Xishan Economy Development Zone
Wuxi City, Jiangsu Province
PRC

LEGAL ADVISER AS TO HONG KONG LAW

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

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
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
Bank of Communications Limited

COMPLIANCE ADVISER

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

WEBSITE

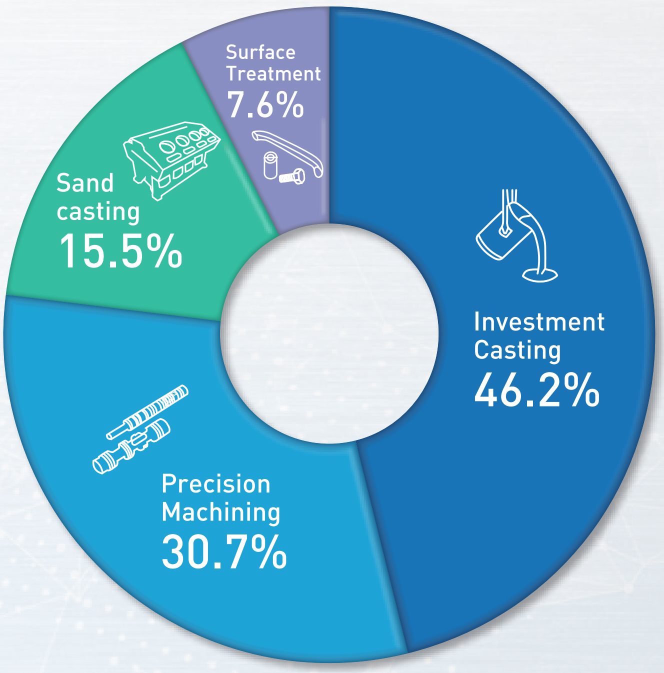
www.improprecision.com

Corporate Profile

Impro Precision Industries Limited, was founded in 1998 in Wuxi City and its global headquarters was moved to Hong Kong in 2011. The Group is a global top 10 manufacturer of high-precision, high-complexity and mission-critical casting and machined components for diverse end-markets. According to the Roland Berger Report, the Group was the world's 7th largest independent and China's largest investment casting manufacturer and also the world's 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2018. The Group was also one of the few domestic suppliers offering one-stop solutions, including initial research and development, tooling design and manufacturing, casting, heat treatment, secondary machining and surface treatment. The Group has established long-term strategic cooperative relationships with a number of globally recognized industry leaders, selling its products to more than 30 countries and regions.

- ***World's 7th Largest Independent and China's largest Investment Casting manufacturer***
- ***World's 4th Largest Precision Machining company*** in the end-markets of automotive, aerospace and hydraulics
- ***Vertical integrated one-stop solutions provider*** including initial research and development, tooling design and manufacturing, casting, heat treatment, secondary machining and surface treatment

REVENUE BY BUSINESS SEGMENT



2019 Group Revenue: ***HK$3,640.2 Million***

2016 – 2019 CAGR : ***12.6%***

Corporate Profile

EMPLOYEES WORLDWIDE

7,100+ employees, including ***600+*** engineers around the world

CUSTOMERS

1,600+ customers located in ***30+*** countries and regions worldwide

SKUs

- ***8,000+*** active SKUs, 1,000+ from Aerospace end-market
- ***~1,000*** new SKUs co-developed with customers in 2019

PATENTS

- ***37*** new patent applications in 2019
- ***Total 334*** registered patents, covering certain key technologies used in our production process

★ **Headquarters** ● **15 Production Plants** ■ **9 Sales Offices** ▲ **Logistics and Warehousing Capacities**

Impro Precision has established global footprint of 15 production facilities in China, Turkey, Germany, the Czech Republic and Mexico, which are supported by 9 sales offices in Mainland China, America, Luxembourg, Germany, Turkey and Hong Kong, as well as warehousing capacities in China, America, Luxembourg and Turkey.

Key Milestones

MAR 2019

Awarded **"Best-in-Class Casting Special Award"** at 2019 China International Foundry Expo

APR 2019

Awarded **"APC Supplier Excellence Award"** by Honeywell Aerospace

Passed **NADCAP Certificate** continuously for 10 times

Expanded **China #3 Production Capacity for Aerospace Components**

JUN 2019

Trading debut on the Main Board of the Stock Exchange of Hong Kong

Won **Grand NEWCAST International Casting Award**

AUG 2019

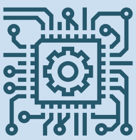
Mexico San Luis Potosi Campus groundbreaking ceremony

SEP 2019

Awarded **"Preferred Supplier Award"** by Modine

OCT 2019

Impro Intelligent Operation System & SAP S4/HANA System Launch



JAN 2020

Won SANY **"Excellent Supplier Award"**

FEB & MAR 2020

- Inclusion as **a constituent stock of Hang Seng Composite Index**
- Inclusion as **a constituent stock of Shenzhen-Hong Kong Connect**

深港通
SHENZHEN CONNECT

Financial Highlights

HK$ million	Year ended 31 December 2019	2018	% Change
Revenue	3,640.2	3,749.1	-2.9%
Gross profit	1,131.5	1,207.8	-6.3%
Gross profit margin	31.1%	32.2%	-1.1%
Profit attributable to shareholders	538.8	409.6	31.5%
Adjusted profit attributable to shareholders[1]	575.7	618.3	-6.9%
Basic earnings per share (HK cents)	31.8	27.3	16.5%
EBITDA[2]	1,082.8	952.6	13.7%
EBITDA margin	29.7%	25.4%	4.3%
Adjusted EBITDA[3]	1,101.5	1,141.8	-3.5%
Adjusted EBITDA margin	30.3%	30.5%	-0.2%
Free cash inflow from operations[4]	461.8	215.9	113.9%

HK$ million	As at 31 December 2019	As at 31 December 2018	% Change
Cash and cash equivalents and pledged deposits	573.8	237.7	141.3%
Total debt	1,082.3	1,930.3	-43.9%
Net debt (total debt less cash and cash equivalents and pledged deposits)	508.5	1,692.6	-70.0%
Total equity	4,027.0	2,684.2	50.0%
Market capitalization[5]	6,026.5	N/A	N/A
Enterprise value[6]	6,550.0	N/A	N/A
Key Financial Ratios			
Return on equity	16.1%	15.8%	
Enterprise value to adjusted EBITDA[3]	5.9	N/A	
Net debt to adjusted EBITDA[3]	0.5	1.5	
Net gearing ratio	12.6%	63.1%	
Interest coverage	9.2	6.3	

Notes:

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

	Year ended 31 December	
	2019 HK$' million	2018 HK$' million
Profit for the year	539.0	411.5
Adjustments:		
– Listing expenses	18.7	48.0
– Impairment loss of goodwill	–	141.2
– Amortization and depreciation related to purchase price allocation, net of tax	18.2	19.5
Adjusted profit for the year	575.9	620.2
Less: profit attributable to non-controlling interest	(0.2)	(1.9)
Adjusted profit attributable to shareholders of the Company	575.7	618.3

2 Earnings before interest, tax, depreciation and amortization.

3 Adjusted EBITDA represents EBITDA added back listing expenses and impairment loss of goodwill for the years ended 31 December 2019 and 2018.

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

	Year ended 31 December	
	2019 HK$' million	2018 HK$' million
EBITDA	1,082.8	952.6
Adjustments:		
– Listing expenses	18.7	48.0
– Impairment loss of goodwill	–	141.2
Adjusted EBITDA	1,101.5	1,141.8

4 Net cash generated from operating activities less net cash used in investing activities but add back cash used in acquisitions (as shown in the caption of "Acquisition of subsidiaries, net" and "Increase in restricted deposits").

5 Outstanding number of shares multiplied by the closing share price (HK$3.20 per share as of 31 December 2019).

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

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present the first annual results of Impro Precision Industries Limited (the "**Company**" or "**Impro Precision**") and its subsidiaries (the "**Group**") for the year ended 31 December 2019 after the successful listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 28 June 2019 ("**Listing Date**").

For the year ended 31 December 2019, the revenue of Impro Precision amounted to HK$3,640.2 million, representing a decrease of 2.9% as compared to HK$3,749.1 million for the year ended 31 December 2018. In terms of local currencies, the revenue of the Group in 2019 recorded a decrease of 0.3% as compared to 2018. Profit attributable to shareholders of the Company (the "**Shareholders**") amounted to HK$538.8 million, representing an increase of 31.5% as compared to HK$409.6 million for the year ended 31 December 2018. For the year ended 31 December 2019, basic earnings per share amounted to 31.8 HK cents, representing an increase of 16.5% as compared to last year.

OVERVIEW OF OPERATING RESULTS

2019 was a year full of uncertainties and negative factors in global trade situation, including, among other things, the changes in international trade relations, geopolitics and debt crisis. And intensified disputes over trade and investment were one of the key factors leading to slower rate of global economic growth. During the year, trade conflicts between the PRC and the United States continued to escalate, resulting in adverse effects on global trade and supply chain, and undermining the confidence of customers in various end-markets, while bringing significant challenges to the business development of the Group.

Revenue by Business Segments

The Group operates four business segments: investment casting, precision machining, sand casting and surface treatment. For the year ended 31 December 2019, investment casting was our largest business segment, and will continue to be our core business segment.

For the year ended 31 December 2019, revenue derived from the investment casting segment was HK$1,682.2 million, representing an increase of 6.4% as compared to last year, which was mainly boosted by rising demand from the aerospace, recreational boat and vehicle and medical end-markets. Revenue derived from the precision machining segment was HK$1,118.7 million, representing a decrease of 7.9% as compared to last year, which was mainly due to the impact of lower demand from commercial vehicles and hydraulic equipment end-markets. Revenue derived from the sand casting segment was HK$564.5 million, representing a decrease of 6.2% as compared to last year, which was mainly due to lower sales in high horsepower engine and construction equipment. Revenue derived from the surface treatment segment was HK$274.8 million, representing a decrease of 21.7% as compared to last year, the decrease was affected by the falling demand from the end-market for passenger cars end-market in the Mainland China.

	Year ended 31 December					
	2019		2018		Increase/(Decrease)	
By Business	HK$ million	%	HK$ million	%	HK$ million	%
Investment casting	1,682.2	46.2%	1,581.2	42.2%	101.0	6.4%
Precision machining	1,118.7	30.7%	1,215.2	32.4%	(96.5)	-7.9%
Sand casting	564.5	15.5%	601.8	16.0%	(37.3)	-6.2%
Surface treatment	274.8	7.6%	350.9	9.4%	(76.1)	-21.7%
	3,640.2	100.0%	3,749.1	100.0%	(108.9)	-2.9%

Revenue by end-markets

The Group sells its products to worldwide customers in a broad range of end-markets, and the end-markets with business coverage include, among other things, automotive (comprising passenger car and commercial vehicle), industrial (such as high horsepower engine, hydraulic equipment, construction equipment and agricultural equipment), aerospace and medical end-markets. During the year, as relatively large discrepancies existed in the developments of various major end-markets, revenue derived from markets covered by the Group's business exhibited more apparent fluctuations. Among these markets, the sales in the automotive end-market decreased by 6.2% as compared to last year, mainly due to the slower growth in the worldwide (especially the PRC) automotive sales during the year. The sales of the industrial end-market decreased by 5.2% as compared to last year, mainly due to the protectionism in individual markets in global trade, bringing greater challenges to the relevant business of the Group. Nevertheless, benefitting from the diversified customer base, excellent production process and one-stop solutions of the Group, and through deepened and refined efforts exerted in various end-markets, the impact from trade conflicts and the decline in the demand from some of the end markets and softness in demand from certain end-markets were reduced substantially during the year. The revenue of the Group derived from the aerospace and medical end-markets during the year maintained a relatively stable growth and increased by 23.0% as compared to last year.

Chairman's Statement

By End Market	2019 HK$ million	2019 %	2018 HK$ million	2018 %	Increase/(Decrease) HK$ million	Increase/(Decrease) %
	Year ended 31 December					
Automotive	**1,637.5**	**45.0%**	**1,745.5**	**46.6%**	**(108.0)**	**-6.2%**
– Passenger Car	1,100.8	30.2%	1,138.1	30.4%	(37.3)	-3.3%
– Commercial Vehicle	536.7	14.8%	607.4	16.2%	(70.7)	-11.6%
Industrial & Others	**1,553.9**	**42.7%**	**1,638.8**	**43.7%**	**(84.9)**	**-5.2%**
– High Horsepower Engine	383.2	10.5%	379.5	10.1%	3.7	1.0%
– Hydraulic Equipment	250.9	6.9%	311.8	8.3%	(60.9)	-19.5%
– Construction Equipment	218.9	6.0%	260.0	6.9%	(41.1)	-15.8%
– Agricultural Equipment	202.2	5.6%	235.4	6.3%	(33.2)	-14.1%
– Recreational Boat and Vehicle	130.7	3.6%	99.8	2.7%	30.9	31.0%
– Others	368.0	10.1%	352.3	9.4%	15.7	4.5%
Aerospace & Medical	**448.8**	**12.3%**	**364.8**	**9.7%**	**84.0**	**23.0%**
– Aerospace	344.2	9.4%	281.9	7.5%	62.3	22.1%
– Medical	104.6	2.9%	82.9	2.2%	21.7	26.2%
	3,640.2	100.0%	3,749.1	100.0%	(108.9)	-2.9%

Revenue by geographical market

For the year ended 31 December 2019, the revenue of the Group decreased mainly due to the decrease in the sales to Europe and Asia (of which, the decrease in the sales to Asia was particularly notable).

By Location	2019 HK$ million	2019 %	2018 HK$ million	2018 %	Increase/(Decrease) HK$ million	Increase/(Decrease) %
	Year ended 31 December					
Americas	**1,592.5**	**43.8%**	**1,575.1**	**42.0%**	**17.4**	**1.1%**
– United States	1,480.3	40.7%	1,486.5	39.6%	(6.2)	-0.4%
– Others	112.2	3.1%	88.6	2.4%	23.6	26.6%
Europe	**1,197.4**	**32.9%**	**1,222.4**	**32.6%**	**(25.0)**	**-2.0%**
Asia	**850.3**	**23.3%**	**951.6**	**25.4%**	**(101.3)**	**-10.6%**
– PRC	769.2	21.1%	859.5	22.9%	(90.3)	-10.5%
– Others	81.1	2.2%	92.1	2.5%	(11.0)	-11.9%
	3,640.2	100.0%	3,749.1	100.0%	(108.9)	-2.9%

MARKET AND BUSINESS REVIEW

During the year, revenue derived from the automotive end-market accounted for 45.0% of the total revenue of the Group. As different opportunities and challenges were faced by the global automotive market, polarized performance appeared. According to the report released by the ITRI Industrial Economics and Knowledge Center (工業技術研究院產業科技國際策略發展所), the overall sales of global automotive declined slightly by 4.7% in 2019 as compared to the previous year.

During the year, we conducted bona fide negotiations with individual customers, and transferred additional tariffs partially or wholly to the customers. During the year ended 31 December 2019, the total amount of additional tariffs levied on the product of the Group was approximately HK$128.7 million, and approximately HK$25.6 million of such additional tariff was borne by the Group.

Facing the challenges of international trade, the Group paid close attention to changes in the macro environment of the precision components industry during the year, and continued to focus on products with high precision, high complexity and critical performance, and provided one-stop solutions. We will capture the global industrial development opportunities, reinforce our relationship with existing major customers and develop opportunities of partnership with other leading customers in global industries, to continue the implementation of our "twin-engine growth" strategy through organic growth and strategic acquisition. The Group will also continue to invest in research and development to optimize the production process and improve the operating efficiency.

Meanwhile, we also implement the "Local For Local" strategy for localized development consistently, and are constructing a new production base in San Luis Potosí, Mexico, with a total land area of 227,474 sq. m. during the year. The preliminary construction work was commenced in the second quarter of 2019, and the Group planned to complete the construction of the precision machining and sand casting plants in different stages by the end of 2020. Besides, we have also started the planning and design for the construction of an investment casting plant on the same land site to meet and satisfy the future growth and development of the North American market, it is expected to assist the Group to diversify the potential supply chain risk generated from export sales in future.

During the year, the Group also continued to deepen the development of the aerospace and medical end-markets with vast potential. According to the market research data from Roland Berger, the size of global investment casting market was US$14.2 billion in 2018, of which the contribution from the aerospace and medical end-markets was approximately US$8 billion or 56.3%. As the global market continued to develop with relatively fast expansion in the aerospace and medical end-markets, it is expected by 2023, the proportion contributed by these two end-markets will increase further to US$10.5 billion, and their contribution proportion will increase further to 60.3%. In order to seize the vast market development space, the Group continued to further optimize and adjust its own business segments, accelerated the expansion of the aerospace and medical end-markets, and realized good results during the year.

However, affected by the safety defect incidents of the Boeing 737 Max aircraft, which is one of the major OEM (Original Equipment Manufacturer) in the aerospace end-market, the pace of growth of the aerospace end-market has slowed down.

Chairman's Statement

In conclusion, the difficulties faced by the end-markets under the depressive environment of international trade and the slackened global economic growth were greater than expected, and the business development of global providers in components manufacturing and service was also affected. For this, the Group always pay attention to the industry developments, and strategically further develop and expand the aerospace and medical end-markets which are perceived by us to have high profitability and stronger growth potential to ultimately realize a more balanced coverage in the automotive, industrial, aerospace and medical end-markets.

BUSINESS OUTLOOK

2019 was a year of volatility in the global market environment. The tension of trade war between China and United States continued to escalate, the global automotive market presented a polarized development, and the impact of the Boeing 737 Max incidents on the aerospace end-market cast a cloud of darkness over the development of the global investment casting industry. However, at the end of 2019, all major end-markets began to show signs of warming up. With the signing of first stage agreement in trade negotiations between China and United States on 15 January 2020, the automotive sales in the China market completed inventory elimination and bottomed out, the impact of the Boeing 737 Max incident on the global aerospace end-market was clearer, and as a result Group is cautiously optimistic about the global business development prospects in 2020. As at 29 February 2020, the Group's total order on hand to be fulfilled in 2020 amounted to HK$1,907 million, which will provide strong support for the stable growth of our business in future.

However, since late January 2020, the outbreak of novel coronavirus ("**COVID-19**") epidemic in Mainland China caused temporary production halt in our Group's plants in Mainland China, and production capacity was reduced in February 2020, this brings challenges to the Group's business and supply chain. The management has adopted various measures to safeguard the health of employees and after fulfilling all local government's related regulations, all of our Mainland China plants has already resumed most of production in order to satisfy the demand for goods from customers. However, since late February 2020 up to date, the COVID-19 has a clear tendency to spread outside the PRC; up to 11 March 2020, the WHO announced that COVID-19 can be characterized as a pandemic, as such it will be probable to constitute fluctuations in the demand of different end markets. As there is great uncertainty of the spread of the epidemic, the degree of impact on different end markets and different customers in the future may be varied, and the impact on the overseas plants, warehousing and distribution facilities of the Group cannot be predicted at this stage.

In addition, the Group will persist in the implementation of our effective "twin-engine growth" strategy through organic growth and strategic acquisition to accelerate the elevation of our comprehensive solid capabilities and seize the market development opportunities to maximize the return for Shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express our gratitude to the Shareholders and business partners for their trust and long-term support to the Group. Moreover, I would also like to express gratitude to the Board, the management of the Company and all employees for their persistent efforts and contributions in the past few years. In 2020, the Company will continue to strive achieving better results to bring better return for the Shareholders.

LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 12 March 2020

Management Discussion and Analysis

FINANCIAL OVERVIEW

HK$ million	Year ended 31 December 2019	2018	% Change
Revenue	**3,640.2**	**3,749.1**	**-2.9%**
Gross profit	**1,131.5**	**1,207.8**	**-6.3%**
Gross profit margin	31.1%	32.2%	-1.1%
Other revenue	23.4	36.8	-36.4%
Other net income/(loss)	5.5	(160.2)	-103.4%
Selling and distribution expenses	(160.6)	(162.3)	-1.0%
Administrative and other operating expenses	(303.3)	(347.7)	-12.8%
Operating profit	**696.5**	**574.4**	**21.3%**
Operating profit margin	19.1%	15.3%	3.8%
Net finance costs	(58.0)	(87.0)	-33.3%
Profit before taxation	**638.5**	**487.4**	**31.0%**
Income tax	(99.5)	(75.9)	31.1%
Effective tax rate	15.6%	15.6%	0.0%
Profit for the year	**539.0**	**411.5**	**31.0%**
Net profit margin	14.8%	11.0%	3.8%
Attributable to:			
Equity shareholders of the Company	538.8	409.6	31.5%
Non-controlling interest	0.2	1.9	-89.5%
	539.0	411.5	31.0%

Management Discussion and Analysis

OVERVIEW

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

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

During the year ended 31 December 2019, the trade tension between the United States and China has slowed down the global business activities. Despite the external challenges and difficulties which has led to a 2.9% drop in revenue, the Group has not only been able to maintain its core competitiveness, but at the same time able to react and focus on key end-market segments, together with various cost cutting measures which enable the Group to achieve a consistent adjusted EBITDA margin of 30.3% during the year or slightly 0.2% lower than 2018.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2019 decreased by 2.9% compared to the last year of HK$3,749.1 million. In local currencies, the Group's revenue only decreased by 0.3% compared to last year while RMB and Euro depreciated against Hong Kong Dollars ("**HKD**") by 3.9% and 5.0%, respectively, as compared to 2018.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$76.3 million, or 6.3% to HK$1,131.5 million for the year ended 31 December 2019 as compared to HK$1,207.8 million for the year ended 31 December 2018. Notwithstanding the slowdown of global business operations, the Group achieved an increase in gross profit of HK$39.5 million compared to last year in its investment casting business, while the gross profit contributed by other business segments has decreased during the year ended 31 December 2019, as compared to last year.

The Group's gross profit margin slightly decreased to 31.1% for the year ended 31 December 2019 as compared to 32.2% of last year. The decrease in gross profit margin was mainly attributable to the precision machining business, while there was increase in gross profit margin in the group's investment casting and surface treatment business as compared to last year.

Other revenue

During the year ended 31 December 2019, the Group's other revenue decreased by HK$13.5 million to HK$23.4 million (2018: HK$36.9 million). Other revenue mainly represented discretionary incentives from the local PRC governments in relation to technology development.

Other net income/(loss)

The Group recorded other net income of HK$5.5 million for the year ended 31 December 2019 (2018: other net loss of HK$160.2 million). Other net income/loss mainly represented the net foreign exchange gain/loss due to the fluctuations of Turkish Lira and RMB against HKD during the years. In last year there was also an one-off goodwill impairment loss of HK$141.2 million.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by 1.0% from HK$162.3 million for the year ended 31 December 2018 to HK$160.6 million for the year ended 31 December 2019. Selling and distribution expenses to revenue ratio increased from 4.3% to 4.4% for the year ended 31 December 2019. The Group incurred higher U.S. special custom duties which amounted to HK$25.6 million (2018: HK$11.7 million), if excluding the impact from this additional tariff, the Group's selling and distribution expenses would have decreased by HK$15.6 million or 10.4% as compared to last year.

Administrative and other operating expenses

The Group's administrative and other operating expenses decreased by HK$44.4 million, or 12.8%, to HK$303.3 million for the year ended 31 December 2019, as compared to HK$347.7 million for the year ended 31 December 2018. The decrease was mainly attributable to the listing expenses of HK$18.7 million and HK$48.0 million recorded in the respective years. Excluding the listing expenses, the Group's administrative and other operating expenses decreased by HK$15.1 million, or 5.0%, as compared to last year mainly due to lower impairment loss on trade and other receivables.

Net finance costs

The Group's net finance costs decreased from HK$87.0 million for the year ended 31 December 2018 to HK$58.0 million for the year ended 31 December 2019. The decrease was mainly due to lower net debt balances during the year.

Income tax

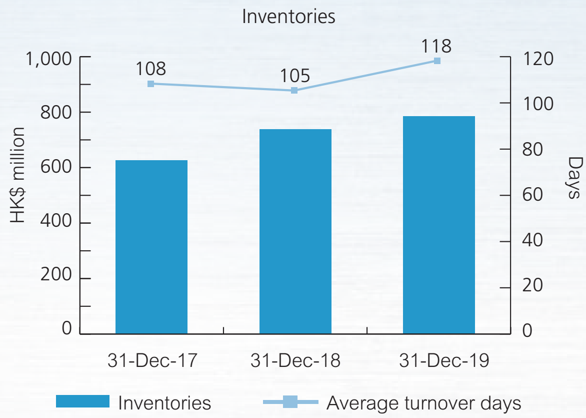
The Group's income tax expense increased to HK$99.5 million for the year ended 31 December 2019 from HK$75.9 million for the year ended 31 December 2018. The increase was primarily due to the income tax incentive arising from qualifying investment at our Turkey subsidiary which reduced the income tax expenses by HK$36.6 million in last year.

Working capital

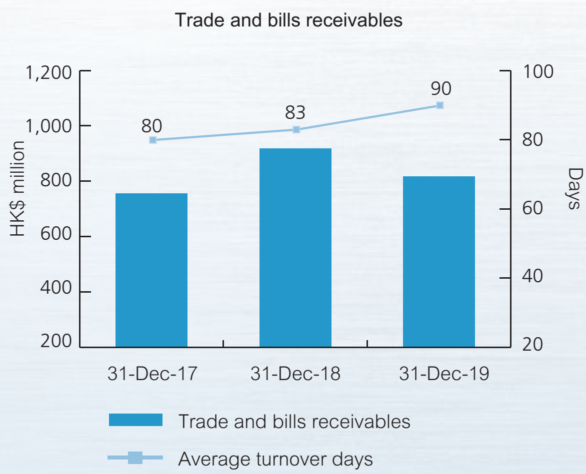
	As at 31 December 2019 HK$ million	As at 31 December 2018 HK$ million
Inventories	**785.8**	738.4
Trade and bills receivables	**816.0**	919.5
Prepayments, deposits and other receivables	**76.3**	101.8
Trade payables	**(284.2)**	(388.2)
Other payables and accruals	**(259.0)**	(310.0)
Deferred income	**(57.0)**	(59.0)
Defined benefit retirement plans obligation	**(67.8)**	(61.0)
Total working capital	**1,010.1**	941.5

Management Discussion and Analysis

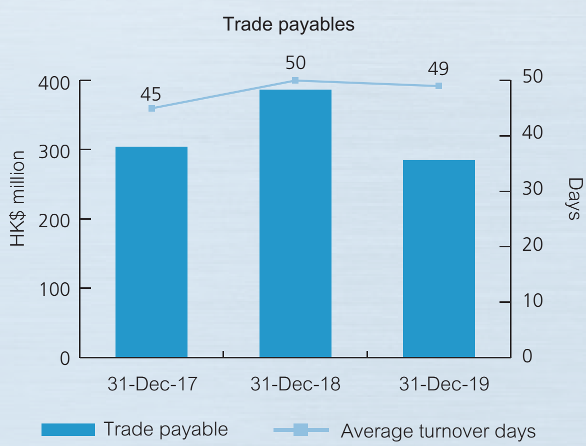
Inventories increased HK$47.4 million to HK$785.8 million as of 31 December 2019 (31 December 2018: HK$738.4 million) mainly due to increased level of finished goods as we returned to normal stock holding level in our warehouses. Inventory turnover days increased from 105 days as at 31 December 2018 to 118 days as at 31 December 2019 mainly due to higher finished goods inventory attained.



Trade and bills receivables decreased HK$103.5 million to HK$816.0 million as of 31 December 2019 (as at 31 December 2018: HK$919.5 million) mainly due to the Group's additional effort made on the collection of outstanding trade receivables and lower sales in 2019. Trade and bills receivables turnover days increased from 83 days as at 31 December 2018 to 90 days as at 31 December 2019, mainly due to additional settlement time required by certain customers of the Group. Despite of an increase in the provision made on trade receivables during the year, the management of the Group are of the view that the Group's receivables are of high quality and the Group has not encountered any material default payment from customers. Current receivables and overdue balances of less than 30 days are maintained at 88.5% of the balance of the gross trade and bills receivables.



Trade payables decreased HK$104.0 million to HK$284.2 million as of 31 December 2019 (as at 31 December 2018: HK$388.2 million). The decrease was mainly due to the reduction of overdue payable balances and lower purchases in 2019. Trade payable turnover days as at 31 December 2019 slightly decreased to 49 days as compared to 50 days as at 31 December 2018.



Net profit and EBITDA

Profit attributable to shareholders of the Company for the year ended 31 December 2019 was HK$538.8 million, representing an increase of 31.5%, as compared to HK$409.6 million in last year. Adjusted profit attributable to equity holders of the Company was HK$575.7 million, representing a 6.9% decrease as compared with last year. For the year ended 31 December 2019, the Group's EBITDA was HK$1,082.8 million, representing an increase of 13.7% as compared to HK$952.6 million in last year. The Group's EBITDA margin was 29.7% for the year ended 31 December 2019 as compared to 25.4% in last year. Excluding one-off expenses, the Group's adjusted EBITDA margin was 30.3%, slightly 0.2% lower than 30.5% from last year.

Financial resources and liquidity

As at 31 December 2019, the total assets of the Group increased by 7.1% to HK$5,964.2 million and total shareholders' equity increased by 50.0% to HK$4,027.0 million as compared to the amount as at 31 December 2018. The increase was mainly due to the receipt of the net proceeds from the listing of the Company ("**Global Offering**" or "**IPO**") and the profit retained during the year ended 31 December 2019. The Group's current ratio as at 31 December 2019 was 1.77, as compared to 1.06 as at 31 December 2018. The change in current ratio was primarily due to the increase in bank balances arising from the proceeds of the Global Offering and repayment of bank loans.

The Group continues to adopt a prudent financial management and treasury policy to the effect that the Group can maintain a healthy financial position through different business cycles and achieve a long-term sustainable growth. The Group's business requires a significant amount of working capital for the purchase of raw materials, capital spending and product development cost. Prior to the Global Offering, the Group's working capital requirements were satisfied by way of internal financial resources and bank borrowings. The Group had positive total cash flow for the year ended 31 December 2019. The funds generated from operations and cash on hand were adequate to fund the liquidity and capital requirements.

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

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

	Year ended 31 December	
	2019 HK$ million	2018 HK$ million
Cash generated from:		
Operating activities	974.1	777.6
Investing activities	(573.5)	(588.5)
Financing activities	(62.8)	(187.3)
Net movement in cash	337.8	1.8

Management Discussion and Analysis

Cash flows generated from operating activities was HK$974.1 million, an increase of HK$196.5 million compared to HK$777.6 million in last year. The increase in cash flows from operating activities was mainly due to a better management on working capital.

Cash flows used in investing activities was HK$573.5 million, a decrease of HK$15.0 million compared to HK$588.5 million in last year. The major items on investment activities were payment for capital expenditure which included purchases of machinery, equipment, tooling and infrastructure. Included in the capital expenditure was an amount of HK$203.7 million which was funded from the proceeds of the Global Offering.

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

	Year ended 31 December	
	2019 HK$ million	2018 HK$ million
Payment of property, plant and equipment	(458.7)	(490.8)
Payment for deferred expenses	(70.7)	(76.1)
Acquisition of subsidiaries, net	(4.6)	(26.8)
Increase in restricted deposits	(56.6)	–
Others	17.1	5.2
Net cash used in investing activities	(573.5)	(588.5)

Cash flows used in financing activities was HK$62.8 million, compared to HK$187.3 million in last year. The decrease in cash flows used in financing activities during the year was mainly due to the receipt of the net proceeds from the Global Offering which resulted in a lower net debt balances.

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

	Year ended 31 December	
	2019 HK$ million	2018 HK$ million
Proceeds from the Global Offering	1,149.9	–
Issuance expenses paid	(75.1)	–
Proceeds from bank loans	1,637.7	1,266.0
Repayment of bank loans	(2,453.3)	(1,234.4)
Interest paid	(73.6)	(84.2)
Dividend paid	(177.7)	(100.5)
Lease rental paid	(70.7)	(34.2)
Net cash used in financing activities	(62.8)	(187.3)

Indebtedness

As at 31 December 2019, the Group's total borrowings was HK$1,082.2 million, a decrease of HK$848.1 million from HK$1,930.3 million as at 31 December 2018.

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

	As at 31 December 2019 HK$ million	As at 31 December 2018 HK$ million
Current bank loans	614.4	1,095.8
Non-current bank loans	363.0	698.5
Current lease liabilities	70.0	59.4
Non-current lease liabilities	34.8	76.6
Total borrowings	1,082.2	1,930.3

Details of the bank loans of the Group as at 31 December 2019 are set out in note 22 to the consolidated financial statements.

As at 31 December 2019, the Group had total banking facilities available for draw-down of HK$1,088.8 million.

The Group's net gearing ratio as at 31 December 2019 was 12.6% (as at 31 December 2018: 63.1%). This ratio is based on total borrowings less cash and cash equivalents and pledged deposits divided by total equity. The gearing level of the Group has decreased significantly during the year mainly due to the net proceeds received from the Global Offering. Total equity increased as a result of profit growth and new shares issued upon the completion of the Global Offering while a majority of the designated amount of bank borrowings were repaid as stipulated in the Prospectus.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. The Group incurred capital expenditures of HK$457.9 million for the year ended 31 December 2019 which was primarily used in the production capacity expansion in our PRC plants, as well as the infrastructure spending for the new plants in Mexico. Among which, the Group incurred HK$104.1 million for the development of new plants in Mexico, including the acquisition costs for two adjacent parcels of land in San Luis Potosi, Mexico with an aggregate total site area of 227,474 sq.m. and related infrastructure and construction costs. Such capital expenditures were partially funded by the net proceeds from the Global Offering. Currently, we plan to complete the construction of the precision machining and sand casting plants in different stages by the end of 2020. We will review the end-markets demand, marcoeconomic development as well as the global geopolitical tension to determine the pace of development of other plants in Mexico in coming years. In 2019, we also incurred capital expenditure of HK$126.7 million to further expand the capacity of our plant 3 in China to meet soaring demand from aerospace and medical end-markets. Capital commitments contracted for but not incurred by the Group as at 31 December 2019 amounted to HK$225.4 million, which were mainly related to plants construction and acquisition of machinery.

Management Discussion and Analysis

Pledge of Assets

Certain property, plant and equipment, inventories and trade receivables of the Group amounted to HK$15.6 million (as at 31 December 2018: HK$694.4 million) and bank deposits of HK$4.8 million (as at 31 December 2018: HK$2.2 million) were pledged as security for bank borrowings/facilities as at 31 December 2019.

Contingent Liabilities

As at 31 December 2019, the Group had the following contingent liabilities:

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

(b) Shenhai Industrial received arbitration notice that on 8 October 2018 the former shareholders of Shenhai Group was sued by the law firm, which had received the Dissenting Payments of RMB8,000,000 in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial's fire accident insurance. The law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB13,000,000 excluding the Dissenting Payments of RMB8,000,000 and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. The arbitrator considered the case is linked to the Group's appeal against the law firm on 8 January 2019, of which the court decision in favor of the Group's claim was made on 12 November 2019. However, the law firm further appealed to the court. As of the date of this report, the arbitration has been suspended as the result of the law firm's appeal may directly affect the final result of the arbitration. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

Future Plans for Material Investments or Capital Assets

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

Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries during the year ended 31 December 2019.

Significant Investments

As at 31 December 2019, the Group did not have any significant investment plans.

Treasury Policies and Exposure to Fluctuation in Exchange Rates

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

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

To reduce the exposure to foreign currency exchange risk, the Group's management monitors the foreign exchange rates from time to time and may adjust the currency mix of the loan portfolio in a proportion that resembled the respective underlying sales currency proportion with a view to reducing the impact of exchange rate fluctuations. As at 31 December 2019, the borrowings of the Group were denominated in HKD, USD, RMB and Euro, while the cash and cash equivalents were denominated in USD, HKD and RMB in which, HK$325.0 million of borrowings were at fixed interest rates.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the year ended 31 December 2019, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 31 December 2019, the Group had about 7,125 full-time employees of whom 6,012 were based in Mainland China and 1,113 were based in Turkey, Germany, Mexico, Hong Kong, United states and other countries. The total staff costs, including the emoluments of the Directors, amounted to HK$965.0 million for the year ended 31 December 2019 (2018: HK$948.0 million).

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

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

Use of Proceeds from the Global Offering

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

The table below sets forth the use of the net proceeds from the Global Offering for the year ended 31 December 2019:

Business strategies as set out in the Prospectus	Actual amount of the Net Proceeds HK$ million	Actual use of the net proceeds HK$ million	Unutilised proceeds HK$ million
Capital expenditures for production capacity expansion	437.9	203.7	234.2
Repayment of interest-bearing bank borrowings	271.1	251.6	19.5
Acquisition of businesses	219.0	–	219.0
Working capital and general corporate purpose	103.5	103.5	–
Total	1,031.5	558.8	472.7

Impro's success hinges on the long term support of our shareholders. We maintain an effective engagement with investors through meetings, participation in investment conferences, plant visits as well as roadshows. This is to ensure they have a thorough understanding of our business, and to provide them with updates on our operations.

SHAREHOLDER VALUE

We are committed to creating sustainable value for our shareholders, as demonstrated by sustainable growth in revenue and profits in the past 4 years.

IMPRO SHARE PRICE SINCE LISTING

Source: S&P Capital IQ

Share Price Performance

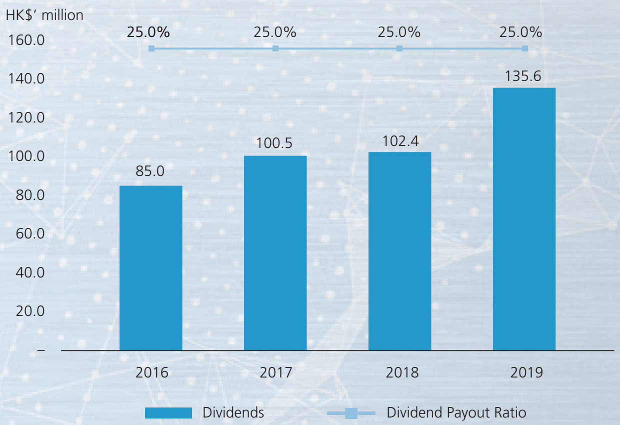
For the year ended 31 December	2019
Highest closing price	HK$4.42 (3 July 2019)
Lowest closing price	HK$2.66 (4 December 2019)

Dividend Payments

The Group's dividend payout ratio is linked to its operating earnings performance, financial position and future investment opportunities. The dividend payout ratio in the financial year 2019 amounted to 25% of the profit attributable to shareholders of the Company. Details of the Group's dividend policy are set out in the report of the directors on page 49.

Over the past 4 years, Impro has delivered sustainable returns to shareholders with 2019 dividends amount increasing by approximately 60% as compared to 2016.

DIVIDENDS AND DIVIDEND PAYOUT RATIO IN LAST 4 YEARS



Investor Relations

Index Recognition

Impro has been a constituent stock of the Hang Seng Composite Index ("HSCI") by the Hang Seng Indexes Company Limited effective from 9 March 2020. HSCI offers a comprehensive Hong Kong market benchmark that currently includes 476 companies which covers the top 95% of the total market capitalisation of companies listed on the Main Board of the Stock Exchange of Hong Kong. Adopting the free-float-adjusted market capitalisation methodology, the HSCI can be used as a basis for index funds, mutual funds as well as performance benchmarks. Furthermore, Impro has also been included as a constituent stock of SHENZHEN-HONG KONG Stock Connect ("SZHK Stock Connect) effective from 9 March 2020 whereby investors in the Mainland China can trade company shares through their local securities companies or brokers. SZHK Stock Connect currently includes 479 companies listed on the Main Board of the Stock Exchange of Hong Kong. Being included in the HSCI and SZHK Stock Connect shortly after our listing on 28 June 2019 is a truly recognition of Impro's solid business performance by the equity market. It is also conducive to the expansion of our shareholder base and further improvement in our stock liquidity.

CORPORATE GOVERNANCE

We believe that high standards of corporate governance are required to execute corporate strategy well and generate increasing value for shareholders over the long term. Details of our progress in this respect can be found in the corporate governance report on pages 28 to 41.

INVESTOR COMMUNICATIONS

We make every effort to maintain an open dialogue with shareholders and potential investors, listening carefully to all views expressed and keeping stakeholders fully informed of material developments. The channels we use to communicate with stakeholders include:

- Analyst briefings on the Group's interim and annual results, including presentation materials posted on the corporate website
- Investor conferences and post-results roadshows
- Meetings and conference calls
- Visits to the Group's manufacturing facilities in mainland China and Turkey
- An easily accessible Investors section on the corporate website, containing all key information
- A designated email for investors that makes communication easier

LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited: 1286

SHARE INFORMATION

Board lot: 1,000 shares

DIVIDEND

Dividend per share for the year ended 31 December 2019
– Interim dividend: HK4.0 cents per share
– Final dividend: HK3.2 cents per share

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

FINANCIAL CALENDAR

2020	
7 – 12 May 2020 (both days inclusive)	Closure of Register of Members – Annual General Meeting
12 May 2020	2020 Annual General Meeting
14 May 2020	Ex-dividend date
18 – 20 May 2020 (both days inclusive)	Closure of Register of Members – Payment of 2019 Final Dividend
29 May 2020	Payment of 2019 Final Dividend
August 2020	2020 Interim Results Announcement

INVESTOR RELATIONS CONTACT AND WEBSITE

Investor Relations Department

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

Tel: (852) 2572 8628
Fax: (852) 2572 8638
Email: ir@impro.com.hk
www.improprecision.com/investors

Corporate Governance Report

CORPORATE GOVERNANCE FRAMEWORK

The Company has adopted the principles and code provisions according to the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") of Appendix 14 of the Listing Rules as the basis of the Company's corporate governance practices with effect from the Listing Date.

The Company is committed to maintaining high standards and has applied the Principles that are set out in the CG Code as set out in Appendix 14 of the Listing Rules. The Company's corporate governance practices are based on these Principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Company to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance transparency and accountability.

In the opinion of the Directors, the Company has complied with all the code provisions of the CG Code and to a large extent the recommended best practices in the CG Code throughout the period from the Listing Date to 31 December 2019, except for the deviation from code provision A.2.1 of the CG Code as described below.

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

BOARD OF DIRECTORS

Roles and Responsibilities

The Group endeavours to enhance corporate efficiency and profitability through the Board. The directors recognise their collective and individual responsibility to the shareholders and perform their duties diligently to contribute to positive results for the Group and maximise returns for shareholders.

The Board's focus is on the formulation of business strategy and policy, and control. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include, but not limited to the following:

- determining business plans and strategies, risk management, internal control;
- preliminary announcements of interim and final results, and Interim and annual reports;
- dividend policy;
- annual and quarterly financial forecast;
- major corporate activities such as material acquisitions and capital expenditures; and
- Directors' appointment, re-election and recommendations.

The Board may delegate part of its functions and duties to executive committees and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board.

Board Composition

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance. It recognises diversity at Board level is an essential element in maintaining competitive advantage and sustainable development. The Board considers it vital to have the appropriate balance of skills, experience and diversity of perspectives that are needed to support the execution of its business strategies.

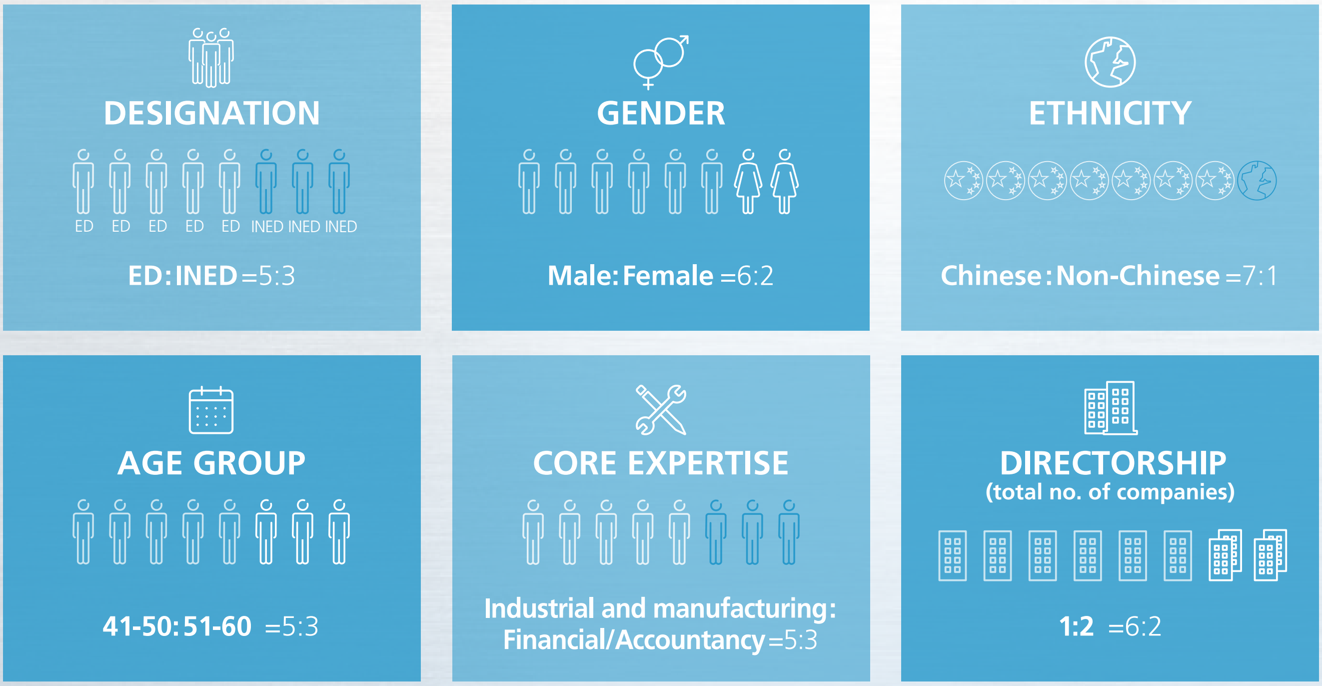
As at 31 December 2019, the Board comprised five executive directors and three independent non-executive directors, whose biographical details are set out in the section headed "Directors and Senior Management" on pages 42 to 48 of this annual report.

	Name of Directors	Relevant Board Committees
Executive Directors (EDs)	Mr. LU Ruibo (Chairman and CEO)	NC RC
	Ms. WANG Hui, Ina	
	Ms. ZHU Liwei	
	Mr. YU Yuepeng	
	Mr. WANG Dong	
Independent Non-executive Directors (INEDs)	Mr. YU Kwok Kuen Harry	AC RC
	Dr. YEN Gordon	AC NC
	Mr. LEE Siu Ming	AC NC RC

The Company has received from all independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive directors to be independent.

Board Diversity

The Company has reviewed board diversity policy during the year ended 31 December 2019. In designing, reviewing and assessing the Board's composition, board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of service and time to be devoted to being a director. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for it to be effective. The analysis of the Board's composition as at 31 December 2019 is:



Note: Directorship (total number of companies) including the Company but excluding unlisted company(ies) in all countries.

Appointment and Re-election of Directors

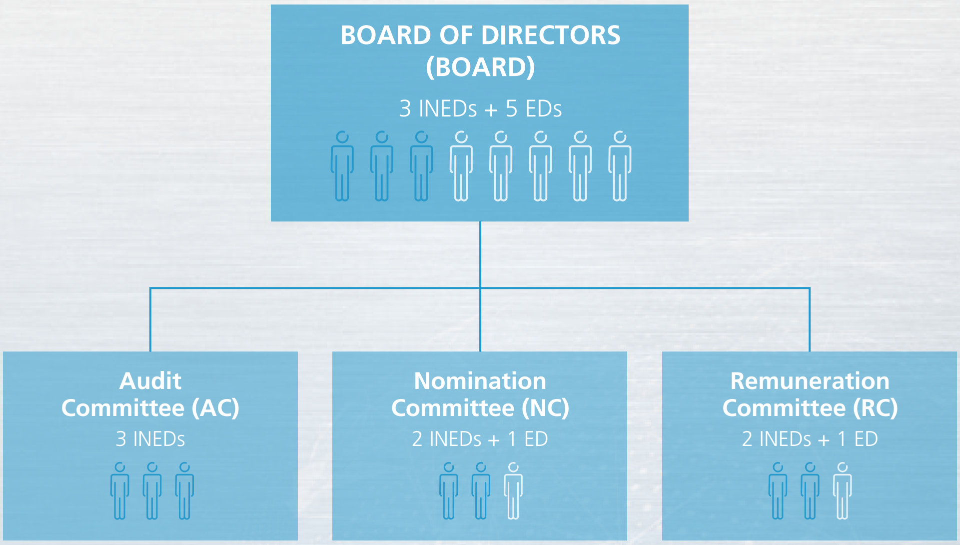
There is a written nomination policy and process (a formal, considered and transparent process) for the selection and appointment of new director(s) and there is a plan in place for orderly succession for appointments. All directors are subject to retirement by rotation at least once every three years.

The independent non-executive directors have letters of appointment from the Company for a term of three years that commenced on 1 April 2019. They are subject to retirement by rotation and are eligible for re-election at the AGM.

Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established three Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Audit Committee only comprises independent non-executive directors as members in order to ensure independence, while the Remuneration Committee and the Nomination Committee comprise a majority of independent non-executive directors so that effective independent judgement can be exercised.

The following chart shows the corporate governance structure of the Board as at 31 December 2019:



The reports of each of the Audit Committee, the Remuneration Committee and the Nomination Committee for the year under review are set out below.

In order to comply with the Listing Rules and the CG Code, the terms of reference of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company and the list of directors and their roles and functions are regularly revised and updated, and are published on the websites of the Company and the Stock Exchange respectively.

AUDIT COMMITTEE REPORT

The Audit Committee comprised three members, each of whom is an independent non-executive director:

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

The Board considers the Audit Committee to have appropriate, relevant financial, accounting and auditing experience and each member is independent as required by the Listing Rules. The Audit Committee met two times during the period from the Listing Date to 31 December 2019 and all members attended each meeting. The Chief Financial Officer attended the meeting of the Audit Committee by invitation. There is active contact between the members of the Audit Committee between meetings.

The main duties of the Audit Committee are as follows:

(i) to review the half-year and annual consolidated financial statements before they are submitted to the Board for approval;
(ii) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
(iii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
(iv) to review the Company's financial controls, internal controls and risk management systems;
(v) to review the Group's financial and accounting policies and practice; and
(vi) to review and monitor the effectiveness of the internal audit function.

The Audit Committee reviewed the unaudited consolidated financial statements for the six months ended 30 June 2019 and the audited consolidated financial statements and reports for the year ended 31 December 2019 together with the external auditors satisfying itself as to the extent of work done by the external auditors, the consistent application of Group accounting policies, the appropriateness of financial judgements applied. In view of their material significance to the Group, the Audit Committee has given ongoing attention to the loss allowance for trade receivables, valuation of inventory and potential impairment of goodwill. The Audit Committee was satisfied with the outcome of its various reviews and recommended the consolidated financial statements to the Board for approval. Audit Committee also had conducted a review of the effectiveness of the system of internal control and internal audit function of the Group. The Board has not taken a different view from that of the Audit Committee regarding the selection, resignation or dismissal of the external auditors.

The Audit Committee reviewed the work plan by the Internal Audit Department to ensure that, over a number of years, all areas of the Group are audited as regards financial and material internal controls. As the work is carried out, detailed reports are submitted to the Audit Committee for review and comment before being released more generally. The Audit Committee satisfies itself as to the quality and focus of the work done by the Internal Auditors, they have been given appropriate access and co-operation in conducting their work and that senior management is overseeing the implementation of any remedial actions required. Occasionally, the Chief Executive Officer or the Board may require the Internal Audit Department to focus on a short-term, urgent matter and the agreement of the Audit Committee is sought. The Audit Committee may from time to time recommend to the Chief Executive Officer proposals regarding the structure and staffing of the Internal Audit Department.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee comprises three members:

- Mr. LEE Siu Ming (Chairman) — independent non-executive director
- Mr. YU Kwok Kuen Harry — independent non-executive director
- Mr. LU Ruibo — executive director, CEO and chairman of the Board

The Remuneration Committee met one time during the period from the Listing Date to 31 December 2019 and all members attended the meeting.

The main duties of the Remuneration Committee are as follows:

(i) to establish and review the policy and structure of the remuneration for the directors and senior management; and
(ii) to make recommendations to the Board on the remuneration packages of individual directors and senior management.

Details of the Remuneration Committee's terms of reference can be found on the Company's website.

During the year ended 31 December 2019, the Remuneration Committee discussed and agreed on

(a) current remuneration structure of the executive directors and senior management; and
(b) 2019 and 2020 fees and annual salaries of individual independent non-executive directors and executive directors, and senior management as a whole.

NOMINATION COMMITTEE REPORT

The Nomination Committee comprises three members:

- Mr. LU Ruibo (Chairman) — executive director, CEO and chairman of the Board
- Dr. YEN Gordon — independent non-executive director
- Mr. LEE Siu Ming — independent non-executive director

The Nomination Committee met one time during the period from the Listing Date to 31 December 2019 and all members attended the meeting.

The main duties of the Nomination Committee are as follows:

(i) to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
(ii) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
(iii) to assess the independence of the INEDs of the Company; and
(iv) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

Details of the Nomination Committee's terms of reference can be found on the Company's website.

During the period from the Listing Date to 31 December 2019, the Nomination Committee held one meeting to (i) review the structure, size and composition of the Board and (ii) assess the independence of INEDs. In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional knowledge and experience, industry knowledge and experience and technical skills. The Nomination Committee would consider and, where applicable, agree on measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Nomination Committee has not set any measurable objectives for implementing the policy. The Nomination Committee considered the current composition of the Board to be appropriate taking into account of the above.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of the emoluments paid or payable to the directors for the year ended 31 December 2019 are as follows:

	Directors' Fees HK$'000	Salaries, allowances and benefits HK$'000	Performance-based bonuses HK$'000 (note iii)	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2019						
Executive Directors (note i):						
Mr. LU Ruibo	300	2,994	–	222	–	3,516
Ms. WANG Hui, Ina	300	2,056	193	101	209	2,859
Ms. ZHU Liwei	300	1,091	653	91	209	2,344
Mr. YU Yuepeng	300	1,080	653	91	209	2,333
Mr. WANG Dong	300	898	824	91	209	2,322
Independent Non-executive Directors (note ii):						
Mr. YU Kwok Kuen Harry (appointed on 1 April 2019)	225	–	–	–	–	225
Dr. YEN Gordon (appointed on 1 April 2019)	225	–	–	–	–	225
Mr. LEE Siu Ming (appointed on 1 April 2019)	225	–	–	–	–	225
	2,175	8,119	2,323	596	836	14,049

Notes:

(i) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The independent non-executive directors' emoluments shown above were for their services as directors of the Company with effect from 1 April 2019.

(iii) The amounts represent performance-based bonuses paid to the directors to reward their contributions to the Group, based on the performance of the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year ended 31 December 2019.

FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION

The five individuals with the highest emoluments in the Group include 3 directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2019 HK$'000
Directors' fees	900
Salaries and allowances	10,537
Performance-based bonuses (note)	2,651
Share-based payments	691
Retirement benefits schemes contributions	591
Total	15,370

Note: The amounts represent performance-based bonuses paid to the five highest paid individuals to reward their contributions to the Group.

Their emoluments were within the following bands (presented in HK$):

	Number of directors	Number of employees
HK$2,000,001 to HK$3,000,000	2	1
HK$3,000,001 to HK$4,000,000	1	1
	3	2

For the year ended 31 December 2019, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments for the year ended 31 December 2019.

SENIOR MANAGEMENT REMUNERATION BY BANDS

The remuneration of the Company's senior management, whose profiles are set out on pages 42 to 48 of this annual report, for the year ended 31 December 2019 were within the following bands:

	Number of senior management
HK$0 to HK$1,000,000	2
HK$1,000,001 to HK$2,000,000	4
HK$2,000,001 to HK$3,000,000	2
HK$3,000,001 to HK$4,000,000	1

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. All directors are encouraged to participate in continuous professional trainings at the Company's expenses. All directors participated in appropriate continuous professional development activities including the Company's in-house update training for directors for the year ended 31 December 2019, and relevant training records have been maintained by the Company for accurate and comprehensive record keeping. The Company Secretary has confirmed that he has complied with the training requirements that he took no less than 15 hours professional training under Rule 3.29 of the Listing Rules.

DIRECTORS' ATTENDANCE AND DEVELOPMENT

Details of director's attendance at the Board, board committees' meetings, annual general meeting and development program held for the year ended 31 December 2019 are set out in the table below:

Name of Directors	Board[1]	Audit Committee	Nomination Committee	Remuneration Committee	Development Program[2]
	Number of Meetings Attended/Held				
Executive Directors (EDs)					
Mr. LU Ruibo	3/3*		1/1*	1/1	1/1
Ms. WANG Hui, Ina	3/3				1/1
Ms. ZHU Liwei	3/3				1/1
Mr. YU Yuepeng	3/3				1/1
Mr. WANG Dong	3/3				1/1
Independent Non-executive Directors (INEDs)					
Mr. YU Kwok Kuen Harry	3/3	2/2*		1/1	1/1
Dr. YEN Gordon	3/3	2/2	1/1		1/1
Mr. LEE Siu Ming	3/3	2/2	1/1	1/1*	1/1
Approximate average duration per meeting (hour)	2	2	0.5	0.5	1.5

*: representing chairman of the Board or relevant board committees.

Notes:

(1) The above figures exclude resolutions in writing signed by all directors, and meetings between the Chairman and INEDs without the presence of EDs.

(2) In-house update training or continuing professional development program for the Company's directors.

EXTERNAL AUDITOR

The Group's independent external auditor is KPMG. The external auditor is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It receives a report from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

For the year ended 31 December 2019, the total fee paid/payable in respect of services provided by KPMG were HK$7.4 million (2018: HK$11.1 million), comprising fees for audit services HK$4.9 million (2018: HK$3.1 million) and for non-audit services (including listing and tax advice) HK$2.5 million (2018: HK$8.0 million).

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports, other price sensitive announcements and other financial disclosures required under the Listing Rules, and to report to the regulators as well as to disclose information required pursuant to statutory requirements. The statement of the external auditor about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. When the directors become aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, such uncertainties would be set out and discussed in detail in this Corporate Governance Report.

The statement of the independent auditor of the Company about its reporting responsibilities and opinion on the consolidated financial statements of the Group for the year ended 31 December 2019 is set out in the Independent Auditor's Report on page 66 of this annual report.

INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT

The Board is responsible for ensuring that a sound and effective system of internal control and enterprise risk management is maintained within the Group, and for reviewing its design and operational adequacy and effectiveness through the Audit Committee.

The internal control and enterprise risk management system, which includes a defined management structure with specified limits of authority and control responsibilities, is designed to (a) help the achievement of business objectives and safeguard the Group's assets; (b) ensure proper maintenance of accounting records and reliability of financial reporting; (c) ensure compliance with relevant legislation and regulations; and (d) identify, manage and mitigate key risks to the Group.

The internal control and enterprise risk management system is established to ensure reasonable, but not absolute assurance against material misstatement or loss and to manage, but not to eliminate risks of failure in achieving the Group's objectives.

Following a risk-based approach, the Group's Internal Audit Department independently reviews and tests the controls over various operations and activities and evaluates their adequacy, effectiveness and compliance. Audit findings and recommendations are reported to the Audit Committee and senior management. In addition, progress on audit recommendations implementation is followed up on a regular basis and discussed with the Audit Committee.

During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's Internal Audit Department, accounting and financial reporting function and their training programs and budgets.

To supplement the above, under the Company's code of conduct, employees can report any ethical misconduct, impropriety or fraud cases within the Group to the Internal Audit Department in writing anonymously without the fear of recrimination.

Based on the results of evaluations and representations made by the management, the Group's Internal Audit Department and the external auditor, the Audit Committee is satisfied that:

- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and

- An appropriate, effective and adequate system of internal control and enterprise risk management has been in place throughout the period from the Listing Date to 31 December 2019, and up to the date of approval of the Annual Report.

SHAREHOLDERS' RIGHTS

The Group aims to establish fair and transparent procedures to enable all shareholders an equal opportunity to exercise their rights in an informed manner and communicate efficiently with the Group. Under the Articles of Association and the relevant policies and procedures of the Group, the shareholders have, among others, the following rights:

Convene an Extraordinary General Meeting

According to the article 58 of the Article of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward Proposals at a General Meeting

The procedures for shareholders to put forward proposals at an AGM or EGM include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the Company's headquarters at Unit 1008, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution, or whether the proposal relates to the election of a person other than a Director of the Company as a director. The procedures for shareholders to convene and put forward proposals at an AGM or EGM (including election of a person other than a Director of the Company as a director) are available on the Company's website or on request to the Company Secretary.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Pursuant to the code provision E.1.2 as set out in the CG Code, the Company has invited representatives of the external auditor of the Company to attend the AGM of the Company to be convened on 12 May 2020 to answer shareholders'questions relating to the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Board recognises the importance of communication with its shareholders and investors. The Company has established an Investor Relations Department to communicate with research analysts, institutional investors and shareholders in an on-going and timely manner, providing them necessary information, data and services to understand the Company's operations, strategies and development. The Company also issues press releases from time to time and responds to requests for information and queries from the investment community. Current information about the Company including the annual report, announcements, circulars and press releases can be downloaded from the Company's website (www.improprecision.com). Enquiries may be put to the Board by either contacting the Investor Relations Department through email at ir@impro.com.hk or raising questions at AGM.

CONSTITUTIONAL DOCUMENT

The Company's Articles of Association were amended and restated as of 15 June 2018 with effect from the Listing Date. There has been no change on the Memorandum of Association during the year ended 31 December 2019 and a copy of the Articles of Association is available on the websites of the Company and the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 The Rules Governing to the Listing of the Stock Exchange (the "Listing Rules") as the code of conduct for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code throughout the period from the Listing Date to 31 December 2019.

Directors and Senior Management

OUR EXECUTIVE DIRECTORS

Mr. LU Ruibo (陸瑞博), previously known as LU Jianqiu (陸建秋), aged 56, is an executive Director, the Chairman of our Board and our Chief Executive Officer. Mr. LU has over 35 years' experience in mechanical engineering and industrial engineering. Mr. LU is the founder of our Group. With his extensive experience in manufacturing industry, Mr. LU is responsible for formulating our overall business development strategies and overseeing our Group's overall operations. Prior to founding our Group in September 1998, Mr. LU worked at Jiangyin Bearing Factory (江陰市軸承廠), which then specialized in the manufacturing of bearing products, from May 1992 to July 1998, and Jiangyin Micro-Bearing Factory (江陰市微型軸承廠), which then specialized in the manufacturing of micro-bearing products, from September 1988 to May 1992, where he was respectively responsible for overseeing the production process. During the period between August 1984 and September 1988, Mr. LU served as a technician at Wuxi Textile Machinery Special Parts Plant (無錫紡織機械專件廠) (previously known as Wuxi Textile Machinery Research Institute (無錫紡織機械研究所), an entity in China engaged in the production of textile parts, and thereby accumulated practical experience in managing the production process in manufacturing businesses.

The previous working experience equipped Mr. LU with the necessary management skills and industry experience in managing manufacturing businesses in China and overseas.

Mr. LU obtained a bachelor's degree in engineering, majoring in mechanical design, manufacturing processes and equipment, from Northeastern Heavy Machinery Institute (東北重型機械學院) (currently known as Yanshan University 燕山大學), the PRC, in July 1984. Mr. LU is the spouse of Ms. Wang Hui, Ina. Mr. LU was appointed as an executive Director in March 2008. Over the past three years, Mr. LU has not acted as a director in other listed companies.

Ms. WANG Hui, Ina (王輝), aged 49, is an executive Director and our Group Vice President. Ms. WANG is in-charge of our Group's marketing, contract management and legal affairs. Ms. WANG has been the president of Impro USA since September 2010 and leads the overall operations of Impro USA. Ms. WANG joined Impro USA in March 1999 and set up and managed our Group's sales offices in the United States and Europe. Ms. WANG has been responsible for our business development and sales contracts negotiation and management. Ms. WANG was our Group's Vice President from June 2008. At present, Ms. WANG is the president of Impro Aerospace Mexico and executive director of Impro International. Ms. WANG has over 19 years' experience in international trade, sales and marketing and overseas operational management activities. This previous working experience equipped Ms. WANG with the required practical skills and business connections for facilitating overseas marketing activities.

Ms. WANG obtained a bachelor's degree in Chinese literature and linguistics from East China Normal University (華東師範大學), the PRC, in July 1992. Ms. WANG obtained a master of business administration (MBA) degree from the University of Phoenix, the United States, in April 2017 and master of Science Regulatory Trade Compliance (MSc) degree from Dunlap-Stone University, the United States in December 2019. Ms. WANG is the spouse of Mr. LU. Over the past three years, Ms. WANG has not acted as a director in other listed companies.

Mr. YU Yuepeng (余躍鵬), aged 49, is an executive Director and our Group Vice President leading the operations and sales support of Plant 1, Plant 5, Plant 6 (Invetment Casting) and Plant 9. Mr. YU is also in charge of related financial approvals and cost control of our regional headquarters in China and China region purchasing department, and act as director of Impro Industries Mexico, in-charge of the operations and sales support of the investment casting components plant in Mexico. Mr. YU joined us in September 1998 and has worked as the director and chief manager of Impro Aerospace Wuxi, the deputy chief manager of Impro China, the assistant manager and the assistant to chief manager of Impro-Bees Bearing. Mr. YU is currently president of Impro China, president of Impross Impeller and vice president of Impro Industries Mexico.

Mr. YU obtained a bachelor's degree in agricultural mechanics from Nanjing Agricultural University (南京農業大學), the PRC, in July 1994. Over the past three years, Mr. YU has not acted as a director in other listed companies.

Ms. ZHU Liwei (朱力微), aged 51, is an executive Director and Group Vice President leading the operations of Plant 3, Plant 4 and Plant 8 in the China region. Ms. ZHU has more than 20 years' experience in the industrial engineering industry. Ms. ZHU joined Wuxi Viking, the predecessor of Impro China, in July 1995 and from September 1998 to September 2006, Ms. ZHU was its general manager responsible for its daily operations. Ms. ZHU was our Vice President from September 2006 to December 2017, responsible for the purchasing department of the China region and the operations of our Plant 2, Plant 3 and Plant 4. Ms. ZHU has been in charge of the aerospace and medical business of our Group since January 2014. Ms. ZHU is currently the president of Impro Aerospace Wuxi.

Ms. ZHU obtained a bachelor's degree in engineering economics and a master's degree in industrial engineering from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1991 and March 2005, respectively. In November 2006, Ms. ZHU was awarded the title of "Senior Economist" (高級經濟師) by the Jiangsu Province Personnel Affairs Bureau (江蘇省人事廳), a provincial government authority responsible for employment and personnel matters, recognizing her expertise and experience in management, economy employment and personnel matters. Over the past three years, Ms. ZHU has not acted as a director in other listed companies.

Mr. WANG Dong (王東), aged 44, is our executive Director and is responsible for the operations and sales support of Plant 2, Plant 6, Plant 7 and Mexico sand casting components plant. Mr. WANG also currently serves as director of Impro Industries Mexico. Mr. WANG has more than 20 years' experience in manufacturing of high-precision machining components and parts. Mr. WANG joined us in October 2001 and worked as the manager for production and logistics of Impro-Bees Machinery; the deputy general manager of Impro China; the deputy general manager of Impro Aerospace Wuxi; the executive deputy general manager of Impro Yixing; the director of Impross Impeller and the executive director and general manager of Impro Taizhou. Before joining us, Mr. WANG served as a technician and an engineer at Wuxi Weifu Group Co., Ltd. (無錫威孚集團公司), a company engaged in the development, manufacturing and supply of components and parts for trucks, passenger cars, and construction machines, from July 1998 to July 2000, where he was responsible for product development.

Mr. WANG obtained a bachelor's degree in mechanical and electronic engineering from Xi'an University of Technology (西安理工大學), the PRC, in July 1998. Over the past three years, Mr. WANG has not acted as director in other listed companies.

Directors and Senior Management

OUR INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Kwok Kuen Harry (余國權), aged 50, was appointed as our independent non-executive director on 1 April 2019. Mr. YU also serves as the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. YU is experienced in the finance and accounting field. Mr. YU worked at KPMG China, an international accounting firm, from October 1991 to June 2011, during which he became a partner in July 2002. Mr. YU is an independent non-executive director of China Risun Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1907) since September 2018.

Mr. YU obtained a diploma in accountancy from the Morrison Hill Technical Institute, Hong Kong and a master's degree in Business Administration through long distance learning awarded by Manchester Business School. Mr. YU is a fellow of the Institute of Chartered Accountants in England and Wales, a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. YU is also a registered auditor in the Macau Special Administrative Region.

Dr. YEN Gordon (嚴震銘), aged 50, was appointed as our independent non-executive director on 1 April 2019. Dr. YEN also serves as a member of the Audit Committee and the Nomination Committee. Dr. YEN is currently the founding managing partner of Radiant Tech Ventures Limited, an innovation and technology venture capital firm, and is registered as a responsible officer under the SFO for Type 9 (asset management) regulated activities. Dr. YEN has over 20 years of management and operational experience in private and listed companies in investment, global supply chain, manufacturing and infrastructure industries. Dr. YEN was an independent non-executive director of Hopewell Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 54) from May 2012 to May 2019. Dr. YEN has also been the vice chairman since 28 August 2018 and a non-executive director since May 2013 of Fountain Set (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 420).

Dr. YEN obtained a bachelor of science degree in manufacturing engineering from Boston University, the United States, in May 1990; a Master of Business Administration degree from McGill University, Canada, in June 1992, and a Doctor of Business Administration from The Hong Kong Polytechnic University in December 2005.

Mr. LEE Siu Ming (李小明), aged 44, was appointed as our independent non-executive director on 1 April 2019. Mr. LEE also serves as the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. LEE has been the chief strategy officer and head of capital markets/corporate finance of VPower Group International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1608) since April 2017. Mr. LEE has over 17 years of experience in investment banking and asset management, and worked at a number of investment banking institutions in Hong Kong such as BOCI Asia Limited, Morgan Stanley Asia Limited, Deutsche Bank AG, Hong Kong Branch, and BNP Paribas Peregrine Capital Limited from 1999 to 2016, where he participated in leading corporate finance and capital markets transactions. Mr. LEE's last position in investment banking was managing director of Global Coverage Centre at BOCI Asia Limited.

Mr. LEE obtained a Master of Business Administration degree and a Bachelor of Business Administration degree from University of Wisconsin – Madison, the United States, in December 1997 and May 1997, respectively. In addition, Mr. LEE has obtained the Chartered Financial Analyst certification from the CFA Institute since May 2001.

OUR SENIOR MANAGEMENT

Mr. YILMAZ Koray Mert, aged 42, is our Group Vice President leading the business development and business operations of Cengiz Makina and Impro Industries Mexico. Mr. YILMAZ also assists in the management of Impro USA. Mr. YILMAZ is currently president of Impro Industries Mexico, president of Cengiz Makina and vice president of Impro USA. Mr. YILMAZ has more than 19 years' experience in the precision machining and automotive industry. Before joining us, Mr. YILMAZ worked at Robert Bosch GmbH in Germany and Turkey from July 1999 to December 2008, where his last position was section manager for technical purchasing. Mr. YILMAZ joined Cengiz Makina in October 2009 as a technical coordinator and was promoted as the general manager in January 2013 and managing director in August 2014.

Mr. YILMAZ obtained a bachelor's degree in mechanical engineering and a minor degree in metallurgical and materials engineering from Middle East Technical University in Turkey in June 1999.

Mr. IP Wui Wing Dennis (葉匯榮), aged 43, was appointed as our Group Chief Financial Officer in December 2016 and Company Secretary in December 2017. Mr. IP is responsible for overseeing the finance, compliance, investor relations and company secretarial matters. Mr. IP also currently serves as a director of Impro Industries Mexico and Cengiz Makina. Prior to joining us, Mr. IP was the chief financial officer and executive director of Braiform Holdings Limited, which is a leading garment hangers and packing solutions provider, from November 2013 to December 2016. Before that, Mr. Ip worked in several multinational companies and an international audit firm (Arthur Andersen & Co.), where he developed extensive experience in leading finance accounting, mergers and acquisitions, treasury, internal control, investor relations and corporate governance functions.

Mr. IP graduated from The Chinese University of Hong Kong, Hong Kong, in December 1998 with a bachelor's degree in business administration. In November 2006, Mr. IP obtained a master's degree in business administration from The Hong Kong University of Science and Technology, Hong Kong. Mr. IP has been certified as a certified public accountant (CPA) by Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants (HKICPA)) since September 2001 and has been a fellow of HKICPA since March 2018. Mr. IP has obtained the Chartered Financial Analyst Certification from the CFA Institute since October 2003.

Directors and Senior Management

Mr. SUN Xiaohao (孫嘯昊), aged 43, was appointed as our Group Vice President (Business Strategy, Investment and Integration) on January 2018. Mr. SUN also currently serves as a director of Cengiz Makina. Mr. SUN has over 20 years of experience in business strategy and investment. Mr. SUN was a senior founding member and director of Cobalt Equity Partners, a Pan Asia mid-market private equity fund, since March 2017. From May 2005 to February 2017, Mr. SUN worked at General Electric ("**GE**"), a multinational conglomerate corporation, at which, his last positions were director of GE private equity & business development and strategic partnership and marketing director of GE Capital China, and was responsible for equity investment transactions in industrial sections, and managing business strategy and capital markets initiatives for joint ventures. From 1998 to 2005, Mr. SUN worked at a number of industrial and consumer goods manufacturers, primarily engaged in marketing, strategy and product management activities.

Mr. SUN obtained a Master of Business Administration degree from China Europe International Business School (CEIBS) (中歐國際工商學院), the PRC, in April 2004, and a bachelor of engineering degree, major in metal and heat treatment, from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1998. In addition, he obtained the certification as a GE Black Belt in Six Sigma from GE, in December 2006.

Mr. ZHUANG Xulei (莊緒雷), aged 45, is the managing director and chief engineer of Plant 3, and executive director and general manager of Plant 4. Mr. ZHUANG has over 20 years' experience in the industrial engineering industry. Mr. ZHUANG joined Wuxi Viking, the predecessor of Impro China, in September 1998. Since September 1998, he has held various positions in Impro China, including manager of investment casting products department, manager of automobile parts products department, deputy chief engineer and chief engineer of Impro China and Impro Aerospace Wuxi.

Mr. ZHUANG obtained a bachelor's degree in mechanical design and manufacturing from Taiyuan Heavy Machinery Institute (太原重型機械學院) (currently known as Taiyuan University of Science and Technology 太原科技大學), the PRC, in July 1998. In November 2005, he received Six Sigma Black Belt Certification from Caterpillar Inc.. Mr. ZHUANG was certified as an engineer by Wuxi City Human Resources and Social Security Department (無錫市人力資源和社會保障局) in September 2011 and a senior engineer by the Jiangsu Human Resources and Social Security Department (無錫市人力資源和社會保障廳) in November 2017.

Mr. SHEN Kun (沈昆), aged 49, is the executive director and general manager of Shenhai Industrial. Mr. SHEN has over 26 years' experience in the industrial engineering industry. Mr. SHEN was general manager of Impro Yixing from November 2014 to December 2017, general manager of Impro Taizhou from November 2015 to December 2017, and general manager of Impross Impeller from January 2017 to December 2017. Mr. SHEN was later appointed as the executive director and general manager of Shenhai Industrial since December 2017. Prior to joining us, Mr. SHEN worked at Wuxi Machine Tools Co., Ltd (無錫機床股份有限公司) Wuxi machine tool plant, a company manufacturing machine tools, from July 1992 to July 1997. From September 1997 to June 2000, he served as a manufacturing manager at Donaldson (Wuxi) Filter Co., Ltd. (唐納森(無錫)過濾器有限公司), which is a company providing filtration technology. Mr. SHEN later became the operating manager of Wuxi MI Technologies Co., Ltd., (模藝(無錫)塑料有限公司), which engages in box-building activities, precision injection plastic molding, tool design and fabrication, from June 2000 to December 2005. From February 2006 to February 2013, he joined Jiangsu Shuangyu Electric Material Co., Ltd (江蘇雙宇電工材料有限公司), a company engaging in magnet wire technology, as the general manager. Mr. SHEN then worked as the factory manager at Jones Tech PLC, Wuxi (北京中石偉業科技無錫有限公司), a company providing solution to improve the reliability of electronic equipment, from April 2013 to August 2014.

Mr. SHEN graduated from Chongqing University (重慶大學), the PRC, and obtained a bachelor's degree in industrial design in July 1992.

Mr. WANG Haozhan (王好戰), aged 40, is the Group's Managing Director, leading group sales and customer service in Asia and Europe industrial and automotive customers. Mr. WANG is also the co-managing director of Impro Europe and Impro Germany, jointly responsible for overall sales, business development and operations. Prior to joining us in November 2019, Mr. WANG worked at 3M, a multinational manufacturing corporation, at which his last position was the director of Sales Excellence & Strategic Key Account Management of 3M China Industrial Business Group between February 2006 to November 2019. From April 2003 to February 2006, Mr. WANG worked in Shanghai Volkswagen Ltd, a leading automotive manufacturer, as engineer and manager assistant of department for Prototype Car Development and Road Testing in R&D Center, responsible for sales and marketing planning, and dealership management.

Mr. WANG obtained a Master degree in Automotive Mechatronics in April 2003, and a Bachelor degree in Engineering, major in thermal engine in June 2000, both from Shanghai JiaoTong University (上海交通大學), the PRC.

Mr. CHEN Kailiang (諶開良), aged 39, is the co-managing director of each of Impro Europe and Impro Germany, responsible for overall sales, business development and operations. Mr. CHEN is also concurrently the managing director of BFG-Czech, BFG-Hessen, and BFG- Niederrhein, in charge of their overall business development and operations. Prior to joining us in November 2017, Mr. CHEN was vice president at Gerresheimer AG in Germany, a group principally engaged in the manufacture of specialty glass and plastic products for pharmaceutical and healthcare use, from January 2015 to October 2017, where he was in charge of operations in Europe. Before that, Mr. CHEN worked in several multinational companies in Europe, when he developed extentsive experience in leading sourcing, supply chain and business development.

Mr. CHEN obtained a master degree in electrical engineering and information technology (majoring in mechatronics) from the Technical University of Munich, Germany, in June 2007.

Directors and Senior Management

Mr. DENG Mingquan (鄧明泉), aged 40, is in-charge of production, operations and sales of Mexico sand casting components plant and also the operations and sales support of the sand casting components plant in China. Mr. DENG has nearly 15 years' experience in the industrial engineering industry. Prior to joining us, Mr. DENG worked as a purchasing manager in Caterpillar Inc., a manufacturer of construction and mining equipment, from August 2004 to June 2016.

Mr. DENG obtained a Master degree of Mechanical Engineering from Tsinghua University (清華大學), the PRC, in July 2003 and a Master of Business Administration degree from The University of Washington, the United States, in June 2017.

Ms. ZHANG Mingmei (張明媚), aged 43, is our business development director. She has over 20 years' experience in the industrial engineering industry. Prior to joining us, Ms. ZHANG worked as a technician at Wuxi Drilling Tools Factory Co., Ltd (無錫鑽探工具廠有限公司), which is a company manufacturing drilling tools, from July 1997 to May 2001.

Ms. ZHANG graduated from Changchun University of Science and Technology (長春科技大學) (now merged into Jilin University (吉林大學)), the PRC, with a bachelor's degree in investigation engineering, in July 1997.

The Directors are pleased to present this report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are shown in Note 16 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 are provided in the Chairman's Statement and Management Discussion and Analysis sections respectively from pages 10 to 14 and pages 15 to 24 of this Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 75 of this Annual Report.

The Directors declared an interim dividend of 4 HK cents per share, totaling HK$75.3 million which was paid on 20 September 2019.

The Board has recommended the payment of a final dividend of 3.2 HK cents per share for the year ended 31 December 2019, amount to a total of approximately HK$60.3 million. Subject to the approval of the proposed final dividend by the shareholders at the annual general meeting to be held on Tuesday, 12 May 2020, the proposed final dividend is expected to be paid on Friday, 29 May 2020.

DIVIDEND POLICY

As disclosed in the Prospectus of the Company dated 28 June 2019, the Board intends to adopt a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 25% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

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

The forthcoming AGM will be held on Tuesday, 12 May 2020. Notice of the AGM will be sent to its Shareholders in due course. For the purpose of determining Shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 7 May 2020 to Tuesday, 12 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30p.m. on Wednesday, 6 May 2020.

Report of the Directors

For the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 18 May 2020 to Wednesday, 20 May 2020, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30p.m. on Friday, 15 May 2020.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the four financial years are set out on pages 189 to 190.

SHARE CAPITAL

Details of the movements in share capital of the Company during 2019 are set out in Note 30 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the distributable reserves of the Company available for distribution as dividends amounted to HK$1,636.5 million.

DONATIONS

During the year, the Group made donations of HK$1.0 million (2018: nil).

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of Cayman Islands in relation to issues of new shares by the Company.

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares.

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

Save for the full exercise of the Over-allotment Option on 19 July 2019 (as set forth in the paragraphs under "Full exercise of the Over-allotment Option" as disclosed in the announcements of the Company dated 22 July 2019 and 24 July 2019), neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the period from the Listing Date to 31 December 2019.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2019, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total cost of sales. The Group's largest customer accounted for approximately 12.5% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 41.8% of the Group's revenue during the financial year.

None of the Directors, their close associates or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are one of the significant assets of the Group. The Group aims to continue establishing a caring environment to employees and emphasize the personal development of its employees. The Group maintains a good relationship with its customers and suppliers. The Group aims to continue providing quality services and consumption experiences to its customers and establishing cooperation strategy with its suppliers.

RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group also participates in defined contribution retirement schemes organized by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. The Group also operates defined benefit retirement schemes for employees in Germany and Turkey. Particulars of the retirement benefit schemes are set out in note 29 to the consolidated financial statements.

DIRECTORS

The Directors for the year ended 31 December 2019 and up to the date of this report were:

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 (appointed on 1 April 2019)
Dr. YEN Gordon (appointed on 1 April 2019)
Mr. LEE Siu Ming (appointed on 1 April 2019)

Report of the Directors

In accordance with Article 83 and 84 of the Aricles of Association, all the Directors including Mr. LU Ruibo, Ms.WANG Hui, Ina, Mr. YU Yuepeng, Ms. ZHU Liwei, Mr. WANG Dong, Mr. YU Kwok Kuen Harry, Dr. YEN Gordon and Mr. LEE Siu Ming shall hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

The profile of the senior management is set out in the Profile of Directors and Senior Management section on pages 42 to 48.

DIRECTORS' SERVICE AGREEMENTS

Each executive director has entered into a service agreement with the Company on 15 June 2018 and letters of appointment have been issued to each independent non-executive director on 1 April 2019. The service agreements with each executive director and the letters of appointment to each independent non-executive director are for an initial fixed term of three years. The service agreements and the letters of appointment are subject to termination in accordance with the respective terms. The service agreements and letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

The emoluments of directors have been determined with reference to the skills, knowledge and involvement in the Company's affairs, the performance of each director and the Company, and prevailing market conditions during the year.

Save as disclosed above, none of the directors has entered, or has proposed to enter, a service agreement with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 33 to the consolidated financial statements.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders and executive Directors (collectively, the "**Covenantors**") has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as our Shares remain so listed on the Hong Kong Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates shall:

(a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and

(b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, has undertaken to our Group that:

(a) if any new business opportunity relating to any of the products and/or services of the Group (the "**Business Opportunity**") is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable the Company to evaluate the merits of the Business Opportunity.

(b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of our Group) shall not pursue the Business Opportunity even though we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company shall have been approved by our independent non-executive Directors.

During the year ended 31 December 2019, the Company had not received any information in writing from any of the Covenantors in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to the knowledge of the Covenantors or their associates (other than any member of the Group). Each of the Covenantors has made an annual declaration to the Company that he/she/it had fully complied with his/her/its obligations under the Deed of Non-competition for the year ended 31 December 2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transaction, arrangement or contract of significance, to which the Company, its parent company or controlling shareholders or any of their respective subsidiaries was a party and in which a director of the Company or an entity connected with him (within the meaning of section 486 of the Hong Kong Companies Ordinance) had a material interest (whether directly or indirectly), was entered into in the year or subsisted at the end of the year or at any time during the year.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save for the share options granted during the year ended 31 December 2019 with details set out under the section headed "Share Option Scheme" in this Annual Report, at no time during the year was the Company, or any of its holding company or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked arrangement.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, the underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

THE COMPANY AND ASSOCIATED CORPORATION

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

Name of Directors	Nature of interest/capacity	Number of Shares or underlying shares	Approximate percentage of the Company's issued share capital
Mr. LU Ruibo ("**Mr. LU**")	Interest in a controlled corporation (1)	1,137,790,787	60.41%
	Spouse interest (2)	1,500,000	0.08%
	Beneficial owner	7,239,000	0.38%
Ms. WANG Hui, Ina ("**Ms. WANG**")	Beneficial owner (2)	1,500,000	0.08%
	Spouse interest (3)	1,145,029,787	60.80%
Mr. YU Yuepeng	Beneficial owner (4)	1,500,000	0.08%
Ms. ZHU Liwei	Beneficial owner (5)	1,500,000	0.08%
Mr. WANG Dong	Beneficial owner (6)	1,500,000	0.08%

(ii) Interest in associated corporation

Name of 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 1,137,790,787 Shares held by Impro Development under the SFO.

(2) Ms. WANG is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(3) Ms. WANG is the spouse of Mr. LU, and neither is she a director of Impro Development nor holds any interest, beneficial or otherwise, in the issued shares of Impro Development. The disclosure of Ms. WANG' s interest in Impro Development is in compliance with the disclosure requirement of spouse interest under Divisions 7 and 8 of Part XV and section 352 of the SFO.

(4) Mr. YU Yuepeng is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(5) Ms. ZHU Liwei is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(6) Mr. WANG Dong is granted the share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

Save as disclosed above, as at 31 December 2019, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have any interests or short positions in any of the Shares or the underlying shares and debentures of the Company and 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 SHARE CAPITAL OF THE COMPANY

As at 31 December 2019, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled entity) in the Shares and the underlying shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Name of substantial shareholders	Nature of interest/capacity	Number of Shares held	Approximate percentage of the Company's issued share capital
Impro Development	Beneficial owner	1,137,790,787	60.41%
Mr. LU	Interest in controlled corporation and beneficial owner	1,145,029,787	60.80%
Baring Private Equity Asia V Holding 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	95,267,123	5.06%
Genertec Investment Management Co. Ltd. (4)	Interest in a controlled corporation	95,267,123	5.06%
China General Technology (Group) Holding Company Limited (4)	Interest in a controlled corporation	95,267,123	5.06%

Notes:

(1) Baring is wholly-owned by Casting Holdings Limited. Casting Holdings Limited is owned as to 99.35% by The Baring Asia Private Equity Fund V, L.P. and 0.65% by The Baring Asia Private Equity Fund V Co-Investment L.P.

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

(3) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.

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

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

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

Member of our Group	Name of shareholders with 10% or more equity interest other than us	Approximate percentage of shareholding
Impross Impeller (Yixing) Co., Ltd.	Ross Casting and Innovation, LLC	33.0%

Save as disclosed above, the Directors are not aware of any persons who were directly or indirectly interested in 10% or more of the shares then in issue, or equity interest in any member of the Group representing 10% or more of the equity interest in such company, or who had any interests or short positions in the Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 31 December 2019.

SHARE OPTION SCHEME

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

As at 31 December 2019, the Company has granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and there is no option granted under the Post-IPO Share Option Scheme.

PRE-IPO SHARE OPTION SCHEME

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

(a) the subscription price per Share shall represent 20% discount to the Offer Price.

(b) save for the options which have been granted, no further options would be offered or granted, as the right to do so was ended upon the Listing.

The table below sets forth the names of the Directors and the number of other grantees under the Pre-IPO Share Option Scheme and the number of share options to them during the year ended 31 December 2019:

				Number of options (1)				
Grantees	Date of grant	Exercise price per option	Exercise period	Outstanding as of 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as of 31 December 2019
Directors								
Ms. WANG Hui, Ina	28/6/2019 (2)	HK$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Mr. YU Yuepeng	28/6/2019 (2)	HK$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Ms. ZHU Liwei	28/6/2019 (2)	HK$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Mr. WANG Dong	28/6/2019 (2)	HK$2.4	28/06/2022-24/12/2024	–	1,500,000	–	–	1,500,000
Senior management	28/6/2019 (2)	HK$2.4	28/06/2022-24/12/2024	–	6,875,000	–	(250,000)	6,625,000
Other employees	28/6/2019 (2)	HK$2.4	28/06/2022-24/12/2024	–	17,355,000	–	(1,875,000)	15,480,000
				–	30,230,000	–	(2,125,500)	28,105,000

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 2,125,500 shares lapsed during the year following the cessation of employment of certain grantees.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme for the year ended 31 December 2019.

POST-IPO SHARE OPTION SCHEME

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

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

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

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environment, Social and Governance Report of the Company prepared in accordance with Appendix 27 to the Listing Rules will be published within three months after the publication of this annual report on the websites of the Company and the Stock Exchange.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as of the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 28 to 41.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Mr. LU Ruibo
Chairman and Chief Executive
Hong Kong, 12 March 2020

Glossary

"Annual General Meeting" or "AGM"	the annual general meeting of the Company
"Articles of Association"	the amended and restated articles of association of the Company as of 15 June 2018 with effective from the Listing Date
"Audit Committee" or "AC"	the Audit Committee of the Company
"BFG-Czech"	BFG Czech s.r.o., a limited liability company incorporated in the Czech Republic on 19 September 2007 and an indirect wholly-owned subsidiary of our Company
"BFG-Hessen"	BFG Feinguss Hessen GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under German law on 8 July 2009 and registered with the commercial register of the local court at Friedberg, Germany under HRB 6872, and an indirect wholly-owned subsidiary of our Company
"BFG-Niederrhein"	BFG Feinguss Niederrhein GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under German law on 18 September 2001 and registered with the commercial register of the local court at Kleve, Germany under HRB 6028, and an indirect wholly-owned subsidiary of our Company
"Board of Directors" or "Board"	our board of Directors
"CAGR"	compound annual growth rate
"Cengiz Makina"	Cengiz Makina Sanayi ve Ticaret Anonim Sirketi, a limited liability company incorporated in Turkey on 27 January 1995 and converted into a joint stock company on 30 November 2004 and an indirect wholly-owned subsidiary of our Company
"CG Code"	the Corporate Governance Code
"Chairman"	the chairman of the Board
"Chief Executive Officer" or "CEO"	chief executive officer of the Group
"Chief Financial Officer"	chief financial officer of the Group

"Company", or "We", or "our", or "us"	Impro Precision Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability on 8 January 2008, the Shares of which are listed on the Main Board of the Stock Exchange
"Company Secretary"	company secretary of the Company
"Director(s)"	the director(s) of the Company
"Euro" or "EUR"	the lawful currency of the member states of the European Union
"Executive Directors" or "EDs"	executive directors of the Company (unless the context requires otherwise)
"Group" or "Impro Group"	the Company and/or its subsidiaries
"HK$"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Impro Aerospace Mexico"	Impro Aerospace Mexico, S. de R.L. de C.V., a company incorporated in Mexico on 17 February 2017 and an indirect wholly-owned subsidiary of our Company
"Impro Aerospace Wuxi" or "Plant 3"	Impro Aerospace Components (Wuxi) Co., Ltd. (鷹普航空零部件(無錫)有限公司), a wholly foreign-owned enterprise established in China on 9 August 2002 and an indirect wholly-owned subsidiary of our Company
"Impro-Bees Bearing" or "Plant 2"	Wuxi Impro-Bees Precision Bearing Co., Ltd. (無錫鷹貝精密軸承有限公司), a wholly foreign-owned enterprise established in China on 15 June 2006 and an indirect wholly-owned subsidiary of our Company
"Impro-Bees Plating & Painting" or "Plant 4"	Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司), a wholly foreign-owned enterprise established in China on 31 August 2004 and an indirect wholly-owned subsidiary of our Company
"Impro China" or "Plant 1 and Plant 5"	Impro (China) Limited (鷹普(中國)有限公司), a wholly foreign-owned enterprise established in China on 12 May 1995 and an indirect wholly-owned subsidiary of our Company

Glossary

"Impro Europe"	Impro Europe SARL, a company incorporated in Luxembourg on 29 May 2012 and an indirect wholly-owned subsidiary of our Company
"Impro Germany"	Impro Germany GmbH, a limited liability company incorporated in Germany on 2 May 2003 and an indirect wholly-owned subsidiary of our Company
"Impro Industries Mexico"	Impro Industries Mexico, S. de R.L. de C.V., a company incorporated in Mexico on 18 March 2016 and an indirect wholly-owned subsidiary of our Company
"Impro Taizhou" or "Plant 7"	Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司), a wholly foreign-owned enterprise incorporated in China on 30 June 2006 and an indirect wholly-owned subsidiary of our Company
"Impro USA"	Impro Industries USA, Inc., a corporation incorporated under the laws of the State of California, the United States, with the articles of incorporation filed on 25 November 1998 and an indirect wholly-owned subsidiary of our Company
"Impro Yixing" or "Plant 6"	Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司), a wholly foreign-owned enterprise incorporated in China on 19 April 2006 and an indirect wholly-owned subsidiary of our Company
"Impross Impeller" or "Plant 9"	Impross Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司), a sino-foreign joint venture limited liability company established in China on 12 February 2011 and an indirectly owned subsidiary of our Company, which is owned as to 67.0% by Impro Yixing and 33.0% by Ross Casting which is an Independent Third Party
"Independent Non-executive Directors" or "INEDs"	independent non-executive directors of the Company (unless the context requires otherwise)
"IPO"	Initial Public Offering
"Listing Date" or "date of listing"	28 June 2019
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mexico"	United Mexican States
"Model Code"	the Model Code for Securities Transactions by directors of Listed Companies
"MPF Scheme"	Mandatory Provident Fund Scheme
"Mr. LU"	Mr. LU Ruibo

"Ms. WANG"	Ms. WANG Hui Ina
"Nomination Committee" or "NC"	the Nomination Committee of the Company
"PRC" or "China"	the People's Republic of China
"Principles"	the principles of good corporate governance (unless the context requires otherwise)
"Remuneration Committee" or "RC"	the Remuneration Committee of the Company
"RMB"	the Renminbi
"Roland Berger Report"	an industry report dated 25 April 2019 on the world's casting industry commissioned by us, issued by Roland Berger, a summary of which is set forth in the section headed "Industry Overview" in the Company's prospectus
"SFO"	the Securities and Futures Ordinance
"Share(s)"	ordinary share(s) with a nominal value of HK$0.1 each in the share capital of our Company
"Shareholder(s)"	the holder(s) of share(s) of HK$0.1 each in the issued capital of the Company
"Shenhai Industrial"	Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司) (formerly known as Nantong Shenhai Special Plating Company Limited (南通市申海特種鍍飾有限責任公司)), a limited liability company established in China on 12 October 2001, which is an indirect wholly-owned subsidiary of our Company
"Stock Exchange", "Hong Kong Stock Exchange" or "HKEx"	The Stock Exchange of Hong Kong Limited
"Turish Lira" or "Lira"	Turish Lira, the lawful currency of Turkey
"Turkey"	the Republic of Turkey
"United States" or "USA" or "U.S."	the United States of America
"US$"	US Dollars

Independent auditor's report to the shareholders of Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Impro Precision Industries Limited ("the Company") and its subsidiaries ("the Group") set out on pages 75 to 188, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Loss allowances for trade receivables	
Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 98 to 101.	
The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, the Group's gross trade receivables amounted to HK$767 million, against which a loss allowance of HK$30 million was recorded. Management measures the loss allowance at an amount equal to lifetime expected credit loss based on estimated loss rates for each category of receivables. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement. We identified the loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards; • assessing whether items were correctly categorized in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the accounts receivable based on credit risk characteristics of customers and the historical default data in management's estimated loss rates;

KEY AUDIT MATTERS (Continued)

Loss allowances for trade receivables	
Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 98 to 101.	
The Key Audit Matter	How the matter was addressed in our audit
	• assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • re-performing the calculation of the loss allowance as at 31 December 2019 based on the Group's credit loss allowance policies; and • inspecting, on a sample basis, cash receipts from debtors subsequent to the reporting date relating to trade receivable balances as at 31 December 2019.

KEY AUDIT MATTERS (Continued)

<table>
<tr><td colspan="2">Valuation of inventory</td></tr>
<tr><td colspan="2">Refer to Note 18 to the consolidated financial statements and the accounting policies on page 103.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>At 31 December 2019, the Group's gross inventories totalled HK$840 million, against which provisions for inventories of HK$54 million were recorded.

The Group's inventories are valued at the lower of cost and net realizable value. The net realizable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale.

A significant proportion of the Group's finished good inventory items are manufactured to meet specific customer requirements. The Group may from time to time manufacture goods based on anticipated customer orders. There is a risk that these inventory items cannot be sold and are stated at more than their net realizable values if there is a demand issue with a customer's product that includes a component manufactured by the Group.</td><td>Our audit procedures to assess the valuation of inventory included the following:

• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over making provisions for inventories;

• assessing the assumptions and estimates made by management in making provisions for inventories by performing a retrospective review of the historical accuracy of these estimates, discussing any significant variances with management and considering the impact of these variances on the current year's assumptions and estimates;

• evaluating whether items were correctly categorized in the finished goods inventory ageing report by comparing with production records, on a sample basis;

• inspecting the inventory ageing report to identify any slow moving and obsolete inventory items and critically assessing whether appropriate provisions have been made for slow moving and obsolete items, for which there has been a lack of recent sales transactions;</td></tr>
</table>

Independent auditor's report to the shareholders of Impro Precision Industries Limited (continued)

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Valuation of inventory	
Refer to Note 18 to the consolidated financial statements and the accounting policies on page 103.	
The Key Audit Matter	How the matter was addressed in our audit
We identified the valuation of inventories as a key audit matter because of its significance to the Group's total assets, and because determining the net realizable value involves significant management judgement and estimation, which can be inherently subjective and increase the risk of error or potential management bias.	• comparing inventory level of finished good items at year end date, on a sample basis, with order backlogs and procurement plans indicated by customers in order to assess the residual risk of the inventory's realizability; and • recalculating the Group's inventory provision with reference to recent sales prices achieved near or after the year end date.

KEY AUDIT MATTERS (Continued)

Assessing potential impairment of goodwill	
Refer to Note 14 to the consolidated financial statements and the accounting policies on pages 102 and 103.	
The Key Audit Matter	How the matter was addressed in our audit
Goodwill arising from business combinations was allocated to the appropriate cash-generation units ("CGU") of the Group identified according to the individual business operated by Shenhai Industrial, Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") and Cengiz Makina Sanayi ve Ticaret Anonim Sirketi ("Cengiz Makina") which were acquired by the Group in 2014. The carrying value of the Group's goodwill as at 31 December 2019 was HK$446 million. Management performed an annual impairment assessment of the goodwill by comparing the carrying value of the CGU containing the goodwill with its recoverable amount. The recoverable amount is estimated by using discounted cash flow forecasts. The preparation of discounted cash flow forecasts involves the exercise of significant management judgment, in particular in determining the appropriate long-term growth rates for earnings before interest, taxes, depreciation and amortization and discount rates.	Our audit procedures to assess the impairment of goodwill included the following: • assessing management's identification of the CGU and the allocation of assets and liabilities to the identified CGU with reference to the requirements of the prevailing accounting standards; • evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing data in the discounted cash flow forecasts with the relevant data, including forecasted revenue, cost of sales and operating expenses, in the financial budgets approved by the board of directors; • comparing the forecasted revenue, cost of sales and operating expenses included in discounted cash flow forecasts prepared in the prior year with the current year's actual performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • engaging our internal valuation specialists to assist us in comparing the long-term growth rates and discount rates applied in the discounted cash flow forecasts with those of comparable companies and external market data;

KEY AUDIT MATTERS (Continued)

Assessing potential impairment of goodwill	
Refer to Note 14 to the consolidated financial statements and the accounting policies on pages 102 and 103.	
The Key Audit Matter	How the matter was addressed in our audit
We identified the assessment of potential impairment of goodwill as a key audit matter because of the inherent level of complex and subjective management judgement required in assessing the variable factors and assumptions in the valuation process and because of the potential for management bias in considering the variable factors and assumptions.	• performing sensitivity analysis of key assumptions, including growth rates and discount rates applied in the discounted cash flow forecasts and considering the resulting impact on the impairment assessment and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of management's impairment assessments of goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

KPMG
Certified Public Accountants

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

12 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 HK$'000 (Note)
Revenue	4	**3,640,170**	3,749,113
Cost of sales		**(2,508,654)**	(2,541,346)
Gross profit		**1,131,516**	1,207,767
Other revenue	5(a)	**23,419**	36,862
Other net income/(loss)	5(b)	**5,520**	(160,203)
Selling and distribution expenses		**(160,604)**	(162,254)
Administrative and other operating expenses		**(303,347)**	(347,740)
Profit from operations		**696,504**	574,432
Net finance costs	6(a)	**(57,974)**	(87,050)
Profit before taxation	6	**638,530**	487,382
Income tax	7	**(99,490)**	(75,911)
Profit for the year		**539,040**	411,471
Attributable to:			
Equity shareholders of the Company		**538,856**	409,603
Non-controlling interest		**184**	1,868
Profit for the year		**539,040**	411,471
Earnings per share	11		
Basic (HK$)		**0.318**	0.273
Diluted (HK$)		**0.317**	0.273

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

The notes on pages 82 to 188 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 30(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 HK$'000 (Note)
Profit for the year		**539,040**	411,471
Other comprehensive income for the year (after tax adjustments)	10		
Items that will not be reclassified to profit or loss:			
Effect of remeasurement of defined benefit retirement plans obligation (net of tax of HK$1,853,000 (2018: HK$1,100,000))	29(a)	**(7,387)**	(442)
Equity investments at fair value through other comprehensive income (FVOCI) – net movement in fair value reserves (non-recycling) (net of tax of HK$101,000 (2018: HK$nil))		**(571)**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong Dollars ("HK$")		**(88,517)**	(155,423)
Other comprehensive income for the year		**(96,475)**	(155,865)
Total comprehensive income for the year		**442,565**	255,606
Attributable to:			
Equity shareholders of the Company		**442,608**	254,178
Non-controlling interest		**(43)**	1,428
Total comprehensive income for the year		**442,565**	255,606

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

The notes on pages 82 to 188 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 HK$'000 (Note)
Non-current assets			
Property, plant and equipment	12	2,884,594	2,761,648
Prepayments for purchase of property, plant and equipment		57,071	69,449
Intangible assets	13	69,729	85,504
Goodwill	14	446,440	457,312
Deferred expenses	15	163,249	166,512
Other financial asset	17	1,572	2,283
Deferred tax assets	27(b)	32,316	22,635
		3,654,971	3,565,343
Current assets			
Inventories	18	785,812	738,430
Trade and bills receivables	19	815,987	919,458
Prepayments, deposits and other receivables	20	76,313	101,779
Taxation recoverable	27(a)	768	5,239
Restricted deposits	21(b)	56,623	–
Pledged deposits	21(b)	4,803	2,195
Cash and cash equivalents	21(a)	568,965	235,543
		2,309,271	2,002,644
Current liabilities			
Bank loans	22	614,398	1,095,777
Lease liabilities	23	70,033	59,444
Trade payables	24	284,215	388,193
Other payables and accruals	25	258,980	309,960
Taxation payable	27(a)	73,998	38,328
		1,301,624	1,891,702
Net current assets		1,007,647	110,942
Total assets less current liabilities		4,662,618	3,676,285

The notes on pages 82 to 188 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 HK$'000 (Note)
Non-current liabilities			
Bank loans	22	**363,007**	698,520
Lease liabilities	23	**34,822**	76,575
Deferred income	28	**56,999**	59,034
Defined benefit retirement plans obligation	29(a)	**67,854**	60,977
Deferred tax liabilities	27(b)	**112,979**	97,000
		635,661	992,106
NET ASSETS		**4,026,957**	2,684,179
CAPITAL AND RESERVES			
Share capital	30(c)	**188,330**	128
Reserves		**3,823,656**	2,669,037
Total equity attributable to equity shareholders of the Company		**4,011,986**	2,669,165
Non-controlling interest		**14,971**	15,014
TOTAL EQUITY		**4,026,957**	2,684,179

Approved and authorized for issue by the board of directors on 12 March 2020.

Lu Ruibo)
) Directors
Wang Hui, Ina)

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

The notes on pages 82 to 188 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000 (Note)	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 1 January 2018		128	543,673	1,110	162,268	(18,973)	–	1,827,281	2,515,487	13,586	2,529,073
Changes in equity for 2018:											
Profit for the year		–	–	–	–	–	–	409,603	409,603	1,868	411,471
Other comprehensive income	10	–	–	–	–	(154,983)	–	(442)	(155,425)	(440)	(155,865)
Total comprehensive income		–	–	–	–	(154,983)	–	409,161	254,178	1,428	255,606
Appropriation of dividends	30(b)	–	–	–	–	–	–	(100,500)	(100,500)	–	(100,500)
Appropriation of reserve		–	–	–	28,758	–	–	(28,758)	–	–	–
Balance at 31 December 2018		128	543,673	1,110	191,026	(173,956)	–	2,107,184	2,669,165	15,014	2,684,179

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

The notes on pages 82 to 188 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000 (Note)	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 31 December 2018		128	543,673	1,110	191,026	(173,956)	–	2,107,184	2,669,165	15,014	2,684,179
Impact on initial application on IFRS 16	2(c)	–	–	–	–	–	–	(1,083)	(1,083)	–	(1,083)
Balance at 1 January 2019		128	543,673	1,110	191,026	(173,956)	–	2,106,101	2,668,082	15,014	2,683,096
Changes in equity for 2019:											
Profit for the year		–	–	–	–	–	–	538,856	538,856	184	539,040
Other comprehensive income	10	–	–	–	–	(88,290)	(571)	(7,387)	(96,248)	(227)	(96,475)
Total comprehensive income		–	–	–	–	(88,290)	(571)	531,469	442,608	(43)	442,565
Capitalization issue	30(c)(i)	149,872	(149,872)	–	–	–	–	–	–	–	–
Issue of ordinary shares by initial public offering and overallotment, net of issuance costs	30(c)(i)	38,330	1,036,477	–	–	–	–	–	1,074,807	–	1,074,807
Appropriation of dividends	30(b)	–	–	–	–	–	–	(177,732)	(177,732)	–	(177,732)
Appropriation of reserve		–	–	–	26,049	–	–	(26,049)	–	–	–
Equity settled share-based transactions	26	–	–	4,221	–	–	–	–	4,221	–	4,221
Balance at 31 December 2019		188,330	1,430,278	5,331	217,075	(262,246)	(571)	2,433,789	4,011,986	14,971	4,026,957

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

The notes on pages 82 to 188 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 HK$'000 (Note)
Operating activities			
Cash generated from operations	21(c)	1,022,504	870,544
Tax paid		(48,404)	(92,959)
Net cash generated from operating activities		974,100	777,585
Investing activities			
Payment for the acquisition of property, plant and equipment		(458,689)	(490,846)
Proceeds from disposal of property, plant and equipment		3,258	4,354
Payment for deferred expenses		(70,669)	(76,055)
Interest received		13,843	839
Acquisition of subsidiaries, net		(4,551)	(26,764)
Increase in restricted deposits		(56,623)	–
Net cash used in investing activities		(573,431)	(588,472)
Financing activities			
Proceeds from issue of ordinary shares by initial public offering	30(c)	1,149,885	–
Share issuance costs paid	30(c)	(75,078)	–
Proceeds from bank loans	21(d)	1,637,663	1,266,052
Repayment of bank loans	21(d)	(2,453,258)	(1,234,434)
Interest paid	21(d)	(73,562)	(84,214)
Capital element of lease rentals paid	21(d)	(65,362)	(28,837)
Interest element of lease rentals paid	21(d)	(5,384)	(5,407)
Dividends paid to equity shareholders of the Company	30(b)	(177,732)	(100,500)
Net cash used in financing activities		(62,828)	(187,340)
Net increase in cash and cash equivalents		337,841	1,773
Cash and cash equivalents at 1 January		235,543	242,322
Effect of foreign exchange rate changes		(4,419)	(8,552)
Cash and cash equivalents at 31 December	21(a)	568,965	235,543

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

The notes on pages 82 to 188 form part of these financial statements.

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 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (the "IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued a number of new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the Company and its subsidiaries.

Items included in these consolidated financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The functional currency of the Company is HK$. The consolidated financial statements are presented in HK$, rounded to nearest thousands, which is the presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are set out in Note 3.

(c) Changes in accounting policies

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

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

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

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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

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

a. *New definition of a lease*

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16*, Leases* (Continued)

a. New definition of a lease (Continued)

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property, plant and equipment as disclosed in Note 31(b). For an explanation of how the Group applies lessee accounting, see Note 2(j).

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16*, Leases* (Continued)

b. Lessee accounting and transitional impact (Continued)

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

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16*, Leases* (Continued)

b. Lessee accounting and transitional impact (Continued)

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16*, Leases* (Continued)

b. *Lessee accounting and transitional impact* (Continued)

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16*, Leases* (Continued)

c. *Impact on the financial result, segment results and cash flows of the Group*

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

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element (see Note 21(d)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 21(e)).

(c) Changes in accounting policies (Continued)

IFRS 16*, Leases* (Continued)

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

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognized under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for the year ended 31 December 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	Year ended 31 December				
	2019				2018
	Amounts reported under IFRS 16 (A) HK$'000	Add back: IFRS 16 depreciation and interest expense (B) HK$'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note i) (C) HK$'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B+C) HK$'000	Compared to amounts reported for 2018 under IAS 17 HK$'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	696,504	8,042	(9,030)	695,516	574,432
Net finance costs	(57,974)	1,084	-	(56,890)	(87,050)
Profit before taxation	638,530	9,126	(9,030)	638,626	487,382
Profit for the year	539,040	9,126	(9,030)	539,136	411,471
Reportable segment profit for the year ended 31 December 2019 (Note 4(b)) impacted by the adoption of IFRS 16:					
– Investment casting	515,314	–	(3,510)	511,804	466,053
– Precision machining	285,962	–	(3,115)	282,847	359,330
– Sand casting	193,819	–	(1,718)	192,101	205,350
– Surface treatment	114,753	–	(687)	114,066	122,841
	1,109,848	–	(9,030)	1,100,818	1,153,574

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

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

	Year ended 31 December			
	2019			2018
	Amounts reported under IFRS 16 (A)	Estimated amounts related to operating leases as if under IAS 17 (Notes i & ii) (B)	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)	Compared to amounts reported for 2018 under IAS 17
	HK$'000	HK$'000	HK$'000	HK$'000
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	1,022,504	(9,030)	1,013,474	870,544
Net cash generated from operating activities	974,100	(9,030)	965,070	777,585
Capital element of lease rentals paid	(65,362)	7,946	(57,416)	(28,837)
Interest element of lease rentals paid	(5,384)	1,084	(4,300)	(5,407)
Net cash used in financing activities	(62,828)	9,030	(53,798)	(187,340)

Note:

(i) The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

(ii) In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interest

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interest represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interest and the equity shareholders of the Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interest (Continued)

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 34(e). These investments are subsequently accounted for as follows, depending on their classification.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in debt and equity securities (Continued)

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(iii)).

- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(u)(v).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

Property, plant and equipment are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value). Freehold land held for own use are not depreciated. Items of property, plant and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Freehold land	not depreciated
Leasehold land	over the period of leases
Properties held for own use	20 – 50 years
Machinery	5 – 15 years
Furniture, fixtures and equipment	4 – 10 years
Motor vehicles	4 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

Construction in progress represents properties under construction and machinery pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(k)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above.

No depreciation is provided in respect of construction in progress.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired through business combination are stated at cost (the acquisition date fair value) less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful life
Customer relationships	3 – 10 years
Patents	8 – 10 years
Incomplete contracts	remaining contract terms
Technical know-how	10 years

The useful lives of customer relationships are estimated based on the historical length of business relationship and turnover rate of customers of the acquirees. The useful lives of patents are estimated based on the remaining valid period of the patents. The useful lives of technical know-how are estimated based on the period of economic benefits to be derived from the products to be produced relying on the technical know-how.

Both the period and method of amortization are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Deferred expenses

Deferred expenses represent direct costs attributable to specific product development projects developed for respective customers over a period of time, from which future economic benefits are expected to flow to the Group when the relevant products are sold to the customers during their product life cycle. The expense capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Deferred expenses are stated at cost less accumulated amortization and impairment losses (see Note 2(k)(ii)). Other development expense is recognized as an expense in the period in which it is incurred.

Amortization of deferred expenses is charged to profit or loss on a straight-line basis over their estimated useful lives of five years.

Both the period and method of amortization are reviewed annually.

(j) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

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

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

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

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(k)(ii)).

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

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognized as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 2(g). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 2(k)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(u)(ii).

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses (ECLs) on financial assets measured at amortized cost (including cash and cash equivalents and trade and other receivables) and debt instruments measured at FVOCI (recycling).

Other financial assets measured at fair value, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is twelve months past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(u)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets

– intangible assets;

– goodwill;

– deferred expenses; and

– investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(l) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labor and appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see Note 2(u)). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(n)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables that are held for collection of contractual cash flows are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)). Receivables that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(w)).

(p) Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdictions in which the Group's subsidiaries located are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(ii) Defined benefit retirement plans obligation

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense on the defined benefit liability are recognized in profit or loss and allocated by function as part of "cost of sales" or "administrative and other operating expenses". Current service cost is measured as the increase in the present value of the defined benefit plans obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense for the period is determined by applying the discount rate used to measure the defined benefit plans obligation at the beginning of each reporting period to the defined benefit liability. The discount rate is the yield at the end of each reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans obligation are recognized in other comprehensive income and reflected immediately in retained profits. Remeasurements comprise actuarial gains and losses.

(iii) Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is included in the amount recognized in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognized when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Interest income

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

(iv) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

(v) Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction dates are the dates on which the Group's subsidiaries initially recognize such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations with functional currency other than HK$ are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Consolidated statement of financial position items are translated into HK$ at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than HK$, the cumulative amount of the exchange differences relating to that operation with functional currency other than HK$ is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(w) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

    (i) has control or joint control over the Group;

    (ii) has significant influence over the Group; or

    (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty

Notes 14 and 29(a) contains information about the assumptions and their risk factors relating to goodwill and defined benefit retirement plans obligations. Other key sources of estimation uncertainty are as follows:

(i) Impairments of non-financial assets

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(ii) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates annually.

(iii) Impairment of trade and other receivables

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(iv) Depreciation and amortization

Items of property, plant and equipment other than freehold land and intangible assets are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expense for future periods are adjusted if there are significant changes from previous estimates.

(v) Estimated amortization of deferred expenses

Deferred expenses are amortized on a straight line basis over the estimated useful lives of five years. The Group reviews the estimated useful lives of the deferred expenses regularly in order to determine the amount to be charged to the profit or loss during any reporting period. The useful lives are based on the Group's historical experience with the estimated average life of the projects and taking into account of the anticipated technological changes. The amortization charge for future periods is adjusted if there are significant changes from previous estimates.

(vi) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and deferred tax assets are recognized only if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

(i) Disaggregation of revenue

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

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Investment casting	1,682,214	1,581,166
Precision machining	1,118,650	1,215,210
Sand casting	564,467	601,842
Surface treatment	274,839	350,895
	3,640,170	3,749,113

The Group's revenue from contracts with customers were recognized at point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

The Group had transactions with two (2018: two) customers exceeding 10% individually of its total revenue.

The total revenue from the sales of investment casting, precision machining and sand casting products to these customers amounted to HK$852,269,000 (2018: HK$981,587,000) and arose in all three geographical regions. Details of concentrations of credit risk arising from the customers are set out in Note 34(a).

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

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

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 engine parts, automotive parts, marine parts and aerospace parts.

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

- Sand casting: It is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand and molten metal is poured into the mould cavity for solidification. The main products are engine parts, marine parts, hydraulic equipment parts and construction equipment parts.

- Surface treatment: It primarily contains surface treatment services including plating, anodizing, painting and coating.

(i) Segment results and assets

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

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

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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) *Segment results and assets* (Continued)

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

	Year ended 31 December 2018 *(Note)*				
	Investment casting HK$'000	Precision machining HK$'000	Sand casting HK$'000	Surface treatment HK$'000	Total HK$'000
Revenue from external customers	1,581,166	1,215,210	601,842	350,895	3,749,113
Inter-segment revenue	–	–	–	27,516	27,516
Reportable segment revenue	1,581,166	1,215,210	601,842	378,411	3,776,629
Gross profit from external customers	516,341	387,803	198,703	104,920	1,207,767
Inter-segment gross profit	–	–	–	11,799	11,799
Reportable segment gross profit	516,341	387,803	198,703	116,719	1,219,566
Depreciation and amortization	141,140	113,179	75,664	48,232	378,215
Reportable segment profit	466,052	359,330	205,350	122,841	1,153,573
Reportable segment assets	1,895,432	1,784,845	807,277	819,899	5,307,453

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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Year ended 31 December	
	2019 HK$'000	2018 HK$'000 (Note)
Revenue		
Reportable segment revenue	3,664,815	3,776,629
Elimination of inter-segment revenue	(24,645)	(27,516)
Consolidated revenue	3,640,170	3,749,113
Gross profit		
Reportable segment gross profit	1,142,219	1,219,566
Elimination of inter-segment gross profit	(10,703)	(11,799)
Consolidated gross profit	1,131,516	1,207,767
Profit		
Reportable segment profit	1,109,848	1,153,573
Elimination of inter-segment profit	(10,703)	(11,799)
Reportable segment profit derived from the Group's external customers	1,099,145	1,141,774
Other revenue	23,419	36,862
Other net income/(loss)	5,520	(160,203)
Listing expenses	(18,700)	(48,000)
Unallocated head office and corporate expenses	(26,599)	(17,786)
Consolidated profit before interest, taxes, depreciation and amortization	1,082,785	952,647
Net finance costs	(57,974)	(87,050)
Depreciation and amortization	(386,281)	(378,215)
Consolidated profit before taxation	638,530	487,382

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
		(Note)
Assets		
Reportable segment assets	**5,302,432**	5,307,453
Elimination of inter-segment receivables	**(7,198)**	(7,442)
	5,295,234	5,300,011
Other financial asset	**1,572**	2,283
Deferred tax assets	**32,316**	22,635
Restricted deposits	**56,623**	–
Pledged deposits	**4,803**	2,195
Cash and cash equivalents	**568,965**	235,543
Unallocated head office and corporate assets	**4,729**	5,320
Consolidated total assets	**5,964,242**	5,567,987

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

(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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) *Geographical information* (Continued)

Revenue from external customers

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Americas		
– United States of America ("United States")	**1,480,255**	1,486,498
– Other	**112,256**	88,574
Europe	**1,197,368**	1,222,419
Asia		
– The People's Republic of China ("PRC")	**769,222**	859,470
– Others	**81,069**	92,152
	3,640,170	3,749,113

Specified non-current assets

	At 31 December	
	2019	2018
	HK$'000	HK$'000
		(Note)
United States	**14,774**	2,289
Europe	**849,811**	898,643
The PRC	**2,580,143**	2,582,006
Mexico	**177,927**	59,770
	3,622,655	3,542,708

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

5 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

(a) Other revenue

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Rental income (Note i)	**579**	3,291
Government subsidies (Note ii)	**18,386**	30,128
Others	**4,454**	3,443
	23,419	36,862

Notes:

(i) As at 31 December 2019, the total minimum lease receivables under irrevocable operating leases agreements in the future amounted to HK$990,000 (2018: HK$1,438,000).

(ii) During the year ended 31 December 2019, the Group received unconditional government subsidies of HK$15,416,000 (2018: HK$27,189,000) as encouragement of their contribution in technology development, environment protection and contribution in local economy.

During the years ended 31 December 2019, the Group received conditional government subsidies of HK$2,177,000 (2018: HK$nil) as subsidies for acquisition of machinery of the Group's PRC subsidiaries. During the year ended 31 December 2019, the Group recognized such subsidies of HK$2,970,000 (2018: HK$2,939,000) for acquisition of machinery and leasehold land in the profit or loss when related conditions were satisfied.

5 OTHER REVENUE AND OTHER NET INCOME/(LOSS) (Continued)

(b) Other net income/(loss)

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Net exchange gain/(loss)	**8,722**	(17,859)
Net (loss)/gain on disposal of property, plant and equipment	**(2,552)**	504
Impairment loss of goodwill (Note 14)	**–**	(141,178)
Others	**(650)**	(1,670)
	5,520	(160,203)

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
		(Note)
Interest income	**(13,843)**	(839)
Interest expenses on bank loans	**70,053**	86,317
Interest expenses on lease liabilities	**5,384**	5,407
Less: borrowing costs capitalized as construction in progress*	**(3,620)**	(3,835)
	71,817	87,889
Net finance costs	**57,974**	87,050

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

* The borrowing costs have been capitalized at a rate of 4.36%-4.79% per annum (2018: 4.40%-5.23%).

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs

	Year ended 31 December	
	2019 HK$'000	2018 HK$'000
Salaries, wages and other benefits	828,439	816,215
Contributions to defined contribution retirement plans	127,099	127,566
Expenses recognized in respect of defined benefit retirement plans obligation (Note 29(a))	5,207	4,233
Equity-settled share-based payment expenses (Note 26)	4,221	–
	964,966	948,014

(c) Other items

	Year ended 31 December	
	2019 HK$'000	2018 HK$'000
Cost of inventories recognized as expenses (Note i)	2,508,654	2,541,346
Depreciation charges		
– owned property, plant and equipment (Note ii)	275,702	248,772
– right-of-use assets (Note ii)	26,510	28,962
Amortization of intangible assets	13,784	14,461
Amortization of deferred expenses	70,285	86,020
Research and development expenses	107,330	101,818
Total minimum lease payments for leases previously classified as operating leases under IAS 17 (Note ii)	–	13,230
Impairment loss of goodwill	–	141,178
Impairment loss on trade and other receivables	2,520	20,722
Provision for write-down of inventories	7,293	2,868
Listing expenses	18,700	48,000
Auditors' remuneration		
– Audit services	4,877	3,093
– Non-audit services (Note iii)	2,495	7,999

Notes:

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

(ii) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognize the depreciation of right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

6 PROFIT BEFORE TAXATION (Continued)

(c) Other items (Continued)

Notes: (Continued)

(iii) During the year ended 31 December 2019, the Group recognized auditors' remuneration for non-audit services in respect of initial public offering of HK$2,230,000 (2018: HK$7,773,000), which is also included in the listing expenses disclosed separately above.

7 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2019 HK$'000	2018 HK$'000
Current tax		
PRC Corporate Income Tax		
Provision for the year	50,043	60,375
Over-provision in respect of prior years	(10,013)	(4,274)
	40,030	56,101
Hong Kong Profits Tax		
Provision for the year	40,795	31,738
Over-provision in respect of prior years	(1,591)	(1,672)
	39,204	30,066
Tax jurisdictions outside PRC and Hong Kong		
Provision for the year	9,761	13,680
	88,995	99,847
Deferred tax		
Origination and reversal of temporary differences (Note 27(b))	10,495	(23,936)
Total income tax expense	99,490	75,911

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the years ended 31 December 2019 and 2018. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

7 INCOME TAX (Continued)

(a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Notes: (Continued)

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("CIT") at statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of High Tech Enterprises (Guokefahuo 2008 No.172), Impro (China) Limited obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2014 to 2016. Impro (China) Limited renewed the qualification in 2017 and was entitled to a preferential income tax of 15% from 2017 to 2019.

Wuxi Impro-Bees Precision Bearing Co., Ltd. and Impro Aerospace Components (Wuxi) Co., Ltd. obtained the qualification as high-tech enterprises and were entitled to a preferential income tax rate of 15% for the years from 2018 to 2020.

Impro Industries (Yixing) Co., Ltd. obtained the qualification as high-tech enterprises in 2016 and was entitled to a preferential income tax rate of 15% for the years from 2016 to 2018. Impro Industries (Yixing) Co., Ltd. renewed the qualification in 2019 and was entitled to a preferential income tax of 15% from 2019 to 2021.

Nantong Shenhai Science and Industrial Technology Co., Ltd. ("Shenhai Industrial") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2016 to 2018. Shenhai Industrial renewed the qualification in 2019 and was entitled to a preferential income tax of 15% from 2019 to 2021.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on interests and dividends from their PRC resident investees for intra-group interest borrowings and earnings accumulated beginning on 1 January 2008, at 7% and 10% (unless reduced by tax treaties or similar arrangements), respectively.

Under the arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group's investments in the PRC subsidiaries meet those requirements for a preferential rate of 5%.

(iv) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiary in the United States was liable to United States Corporation Income Tax at a rate of 27.1% and 27.5%, comprising federal income tax at a rate determined by income ranges and state income tax at a rate ranging from 6% to 9.99% during the years ended 31 December 2019 and 2018, respectively.

(v) Pursuant to the income tax rules and regulations of Germany, Impro Germany GmbH was liable to the German Corporate Tax at a rate of 26.0% and 29.6% during the years ended 31 December 2019 and 2018, respectively. BFG Feinguss Niederrhein GmbH and BFG Feinguss Hessen GmbH, which were acquired by the Group in 2013, were liable to the German Corporate Tax at a rate of 29.5% during the years ended 31 December 2019 and 2018.

(vi) Pursuant to the income tax rules and regulations of Luxembourg, the Group's subsidiary in Luxembourg, which was incorporated in 2012, was liable to the Luxembourg Corporate Tax at a rate of 26.0% during the years ended 31 December 2019 and 2018.

7 INCOME TAX (Continued)

(a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Notes: (Continued)

(vii) Pursuant to the income tax rules and regulations of Czech, the Group's subsidiary in Czech, which was acquired by the Group in 2013, was liable to the Czech Corporate Tax at a rate of 19% during the years ended 31 December 2019 and 2018.

(viii) Pursuant to the income tax rules and regulations of Turkey, the Group's subsidiary in Turkey, Cengiz Makina Sanayi ve Ticaret Anonim Sirketi (Cengiz Makina), which was acquired by the Group in 2014, was liable to the Turkey Corporate Tax at a rate of 22% for the years ended 31 December 2019 and 2018.

According to Turkey Corporate Income Tax Law, Cengiz Makina was entitled to investment tax incentives. Income arising from qualifying investments was subject to reduced Turkey Corporate Income Tax rate. These investment tax incentives reduced the income tax expense by HK$nil (2018: HK$36,574,000) during the year ended 31 December 2019.

(ix) Pursuant to the income tax rules and regulations of Mexico, the Group's subsidiaries in Mexico, Impro Industries Mexico, S. de R.L. de C.V. and Impro Aerospace Mexico, S. de R.L. de C.V., which were established by the Group in 2016 and 2017, respectively, are liable to the Mexico Tax at a rate of 30% during the years ended 31 December 2019 and 2018.

(b) Reconciliation between tax expense and profit before taxation at applicable tax rates:

	Year ended 31 December,	
	2019	2018
	HK$'000	HK$'000
Profit before taxation	638,530	487,382
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	142,405	110,293
Tax effect of non-deductible expenses	4,820	48,257
Tax effect of non-taxable income	(6,017)	(7,172)
Tax effect of tax losses not recognized	4,080	2,259
Effect of PRC tax concessions obtained	(34,194)	(35,206)
Effect of Turkey tax concessions obtained	-	(36,574)
Over-provision in prior years	(11,604)	(5,946)
Actual tax expense	99,490	75,911

8 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2019						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-based bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-Total HK$'000	Share-based payments (Note) HK$'000	Total HK$'000
Executive directors							
Lu Ruibo	300	2,994	–	222	3,516	–	3,516
Wang Hui, Ina	300	2,056	193	101	2,650	209	2,859
Zhu Liwei	300	1,091	653	91	2,135	209	2,344
Yu Yuepeng	300	1,080	653	91	2,124	209	2,333
Wang Dong	300	898	824	91	2,113	209	2,322
Independent non-executive directors							
Yu Kwok Kuen Harry (appointed on 1 April 2019)	225	–	–	–	225	–	225
Yen Gordon (appointed on 1 April 2019)	225	–	–	–	225	–	225
Lee Siu Ming (appointed on 1 April 2019)	225	–	–	–	225	–	225
Total	2,175	8,119	2,323	596	13,213	836	14,049

8 DIRECTORS' REMUNERATION (Continued)

	Year ended 31 December 2018				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-based bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Lu Ruibo	300	2,994	–	204	3,498
Wang Hui, Ina	300	1,986	–	95	2,381
Zhu Liwei	299	1,138	470	102	2,009
Yu Yuepeng	299	1,138	59	102	1,598
Wang Dong	299	711	415	102	1,527
Independent non-executive directors					
Yu Kwok Kuen Harry (appointed on 15 June 2018 and resigned on 31 December 2018)	150	–	–	–	150
Yen Gordon (appointed on 15 June 2018 and resigned on 31 December 2018)	150	–	–	–	150
Lee Siu Ming (appointed on 15 June 2018 and resigned on 31 December 2018)	150	–	–	–	150
Total	1,947	7,967	944	605	11,463

Note:

These represent the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(r)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "share option scheme" in the Report of the Directors and Note 26.

9 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the paid amount to remaining individuals of the Group are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,396**	4,730
Performance-based bonuses	**1,805**	126
Share-based payments	**273**	–
Retirement scheme contributions	**177**	112
	6,651	4,968

The emoluments of the two (2018: two) individuals with the highest emoluments are within the following bands:

	Year ended 31 December	
	2019	2018
	Number of individuals	Number of individuals
HK$nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$4,000,000	**1**	–

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	Remeasurement of defined benefit retirement plans obligation HK$'000	Equity investments at FVOCI – net movement in fair value reserves (non-recycling) HK$'000	Exchange differences on translation of financial statements HK$'000	Total HK$'000
For the year ended 31 December 2019				
Before-tax amount	(9,240)	(672)	(88,517)	(98,429)
Tax benefit	1,853	101	–	1,954
Net-of-tax amount	(7,387)	(571)	(88,517)	(96,475)
For the year ended 31 December 2018				
Before-tax amount	(1,542)	–	(155,423)	(156,965)
Tax benefit	1,100	–	–	1,100
Net-of-tax amount	(442)	–	(155,423)	(155,865)

(Expressed in Hong Kong dollars unless otherwise indicated)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$538,856,000 (2018: HK$409,603,000) and the weighted average of 1,693,496,630 ordinary shares (2018: 1,500,000,000 shares after adjusting for the capitalization issue in 2019) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	**1,277,912**	1,277,912
Effect of capitalization issue (Note 30(c))	**1,498,722,088**	1,498,722,088
Effect of shares issued by initial public offering (Note 30(c))	**193,496,630**	–
Weighted average number of ordinary shares at 31 December	**1,693,496,630**	1,500,000,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of HK$538,856,000 (2018: HK$409,603,000) and the weighted average number of ordinary shares of 1,697,823,319 shares (2018: 1,500,000,000 shares after adjusting for the capitalization issue in 2019), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
Weighted average number of ordinary shares at 31 December	**1,693,496,630**	1,500,000,000
Effect of deemed issue of shares under the Company's share option scheme (Note 26)	**4,326,689**	–
Weighted average number of ordinary shares (diluted) at 31 December	**1,697,823,319**	1,500,000,000

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Leasehold Land (Note (i)) HK$'000	Properties held for own use (Note (i)) HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 January 2018	93,999	111,643	1,131,283	2,202,533	251,320	29,816	117,473	3,938,067
Additions	–	–	2,484	172,142	45,053	596	324,038	544,313
Transfers	–	–	–	211,767	5,331	193	(217,291)	–
Disposals	–	–	–	(11,227)	(6,358)	(1,393)	–	(18,978)
Exchange adjustment	(3,815)	(5,233)	(51,744)	(125,980)	(12,466)	(1,307)	(8,533)	(209,078)
At 31 December 2018	90,184	106,410	1,082,023	2,449,235	282,880	27,905	215,687	4,254,324
Impact on initial application of IFRS 16 (Note)	–	–	16,203	–	2,958	2,573	–	21,734
At 1 January 2019	90,184	106,410	1,098,226	2,449,235	285,838	30,478	215,687	4,276,058
Additions	33,445	4,168	9,379	53,434	25,746	458	343,631	470,261
Transfers	–	–	128,058	280,859	12,812	–	(421,729)	–
Disposals	–	(1,106)	(429)	(24,092)	(5,901)	(2,217)	–	(33,745)
Exchange adjustment	(1,921)	(2,426)	(25,305)	(59,740)	(6,658)	(661)	(2,735)	(99,446)
At 31 December 2019	121,708	107,046	1,209,929	2,699,696	311,837	28,058	134,854	4,613,128
Accumulated depreciation:								
At 1 January 2018	–	15,892	188,971	909,891	167,241	17,168	–	1,299,163
Charge for the year	–	2,294	35,858	203,797	32,471	3,314	–	277,734
Written back on disposals	–	–	–	(8,825)	(5,031)	(1,272)	–	(15,128)
Exchange adjustment	–	(798)	(9,811)	(49,402)	(8,245)	(837)	–	(69,093)
At 31 December 2018 and 1 January 2019	–	17,388	215,018	1,055,461	186,436	18,373	–	1,492,676
Charge for the year	–	2,212	42,127	216,789	38,134	2,950	–	302,212
Written back on disposals	–	(278)	(313)	(20,102)	(5,296)	(1,946)	–	(27,935)
Exchange adjustment	–	(411)	(5,371)	(27,636)	(4,569)	(432)	–	(38,419)
At 31 December 2019	–	18,911	251,461	1,224,512	214,705	18,945	–	1,728,534
Net book value:								
At 31 December 2019	121,708	88,135	958,468	1,475,184	97,132	9,113	134,854	2,884,594
At 31 December 2018	90,184	89,022	867,005	1,393,774	96,444	9,532	215,687	2,761,648

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. See Note 2(c).

(i) The Group obtains the right to use certain land in the PRC under a number of operating lease agreements of 50 years. As at 31 December 2019, the carrying amounts of leasehold land held for own use were HK$88,135,000 (2018: HK$89,022,000), and the carrying amount of properties held for own use thereon were HK$805,755,000 (2018: HK$802,660,000).

(ii) Certain property, plant and equipment of the Group were pledged as security for bank loans. Details are set out as follows:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Freehold land	**9,783**	10,042
Leasehold land	**–**	14,433
Properties held for own use	**–**	307,618
Machinery	**5,800**	7,258
Furniture, fixtures and equipment	**–**	2,011
Aggregate carrying value of pledged property, plant and equipment	**15,583**	341,362

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December	At 1 January
	2019	2019
	HK$'000	HK$'000
Leasehold land, carried at depreciated cost in the PRC, with remaining lease term of between 10 and 50 years	**88,135**	89,022
Properties held for own use, carried at depreciated cost	**17,975**	16,203
Furniture, fixtures and equipment, carried at depreciated cost	**2,334**	2,958
Machinery, carried at depreciated cost	**168,494**	169,329
Motor vehicles, carried at depreciated cost	**976**	2,573
	277,914	280,085

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

Right-of-use assets (Continued)

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000 (Note)
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold land	2,212	2,294
Properties held for own use	7,005	–
Furniture, fixtures and equipment	550	–
Machinery	16,675	26,668
Motor vehicles	68	–
	26,510	28,962
Interest on lease liabilities (Note 6(a))	5,384	5,407
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	2,456	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	84	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	13,230

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognize the depreciation of right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

During the year ended 31 December 2019, additions to right-of-use assets were HK$31,820,000. This amount included the purchase of a leasehold land of HK$4,168,000, and the remainder primarily related to the capitalized lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 21(e) and 23, respectively.

13 INTANGIBLE ASSETS

	Customer relationships HK$'000	Patents HK$'000	Incomplete contracts HK$'000	Technical know-how HK$'000	Total HK$'000
Cost:					
At 1 January 2018	195,635	10,321	88,442	25,227	319,625
Exchange adjustment	(8,397)	(474)	(3,580)	(1,154)	(13,605)
At 31 December 2018 and 1 January 2019	**187,238**	**9,847**	**84,862**	**24,073**	**306,020**
Exchange adjustment	**(4,514)**	**(215)**	**(2,192)**	**(523)**	**(7,444)**
At 31 December 2019	**182,724**	**9,632**	**82,670**	**23,550**	**298,576**
Accumulated amortization:					
At 1 January 2018	122,294	4,015	88,442	977	215,728
Charge for the year	10,877	1,107	–	2,477	14,461
Exchange adjustment	(5,749)	(223)	(3,580)	(121)	(9,673)
At 31 December 2018 and 1 January 2019	**127,422**	**4,899**	**84,862**	**3,333**	**220,516**
Charge for the year	**10,337**	**1,064**	**–**	**2,383**	**13,784**
Exchange adjustment	**(3,023)**	**(126)**	**(2,192)**	**(112)**	**(5,453)**
At 31 December 2019	**134,736**	**5,837**	**82,670**	**5,604**	**228,847**
Net book value:					
At 31 December 2019	**47,988**	**3,795**	**–**	**17,946**	**69,729**
At 31 December 2018	59,816	4,948	–	20,740	85,504

13 INTANGIBLE ASSETS (Continued)

Intangible assets represent customer relationships and patents acquired by the Group in connection with the acquisition of Shenhai Industrial, Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") completed on 3 June 2014, customer relationships, incomplete contracts and technical know-how acquired by the Group in connection with the acquisition of Cengiz Makina completed on 26 August 2014 and technical know-how acquired by the Group in connection with the acquisition of Impross Impeller completed on 23 August 2017. The amortization charge for the years ended 31 December 2019 and 2018 is included in "Administrative and other operating expenses" in the consolidated statement of profit or loss.

14 GOODWILL

	HK$'000
Cost:	
At 1 January 2018	626,009
Exchange adjustment	(27,519)
At 31 December 2018 and 1 January 2019	**598,490**
Exchange adjustment	**(13,958)**
At 31 December 2019	**584,532**
Accumulated impairment losses:	
At 1 January 2018	–
Impairment loss	(141,178)
At 31 December 2018 and 1 January 2019	**(141,178)**
Exchange adjustment	**3,086**
At 31 December 2019	**(138,092)**
Carrying amount:	
At 31 December 2019	**446,440**
At 31 December 2018	457,312

14 GOODWILL (Continued)

Impairment tests for cash-generating unit containing goodwill

For the purpose of goodwill impairment testing, goodwill arising from the business combination was allocated to the appropriate cash-generation units ("CGU") of the Group identified according to the individual business operated by Shenhai Group and Cengiz Makina acquired by the Group in 2014.

Goodwill is allocated to the Group's CGU as follows:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Shenhai Group	**231,168**	236,334
Cengiz Makina	**215,272**	220,978
	446,440	457,312

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using an estimated annual growth rate of 2% for both Shenhai Group and Cengiz Makina respectively as at 31 December 2019 (2018: 2%), which is based on industry growth forecasts. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 12.3% and 13.7% for Shenhai Group and Cengiz Makina respectively as at 31 December 2019 (2018: 13.5% and 14.5%). Key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the five-year projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU. Budgeted EBITDA growth rate in the five-year projection period was estimated taking into account of revenue, gross margins and operating expenses based on past performance and its expectation for market development.

The estimated recoverable amount of the CGU exceeded its carrying amount for Shenhai Group as at 31 December 2019 by approximately HK$62,426,000. The estimated recoverable amount of the CGU exceeded its carrying amount for Cengiz Makina as at 31 December 2019 by approximately HK$162,198,000 (2018: HK$162,178,000).

14 GOODWILL (Continued)

Impairment tests for cash-generating unit containing goodwill (Continued)

Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for recoverable amount to equal carrying amount (in percentage of change)

	2019	2018
Shenhai Group		
Increase in discount rate	+23.7%	Not applicable
Decrease in budgeted EBITDA growth rate (average of next five years)	-31.8%	Not applicable
Cengiz Makina		
Increase in discount rate	+47.9%	+33.4%
Decrease in budgeted EBITDA growth rate (average of next five years)	-47.5%	-52.9%

The Group performs annual impairment test on goodwill at the end of the reporting year. Except for Shenhai Group as at 31 December 2018, the recoverable amount of the CGUs based on the value-in-use calculations is higher than its carrying amount. In performing the annual goodwill impairment test for Shenhai Group on 31 December 2018, as the result of the unexpected downturn of the China automobile market circumstances since the fourth quarter of 2018 and 2019 outlook, and its unfavorable impacts on Shenhai Group's performance, the Group reduced the budgeted EBITDA growth rate based on the available information to reflect the latest market conditions, the result indicated that the estimated recoverable amount was lower than its carrying amount for Shenhai Group and an impairment loss of goodwill of HK$141,178,000 were recognized in the consolidated statement of profit or loss during the year ended 31 December 2018.

15 DEFERRED EXPENSES

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Cost:		
At the beginning of the year	**477,391**	500,679
Additions	**70,669**	76,055
Disposals	**(40,387)**	(73,754)
Exchange adjustment	**(13,242)**	(25,589)
At the end of the year	**494,431**	477,391
Accumulated amortization:		
At the beginning of the year	**310,879**	316,052
Charge for the year	**70,285**	86,020
Disposals	**(40,387)**	(73,754)
Exchange adjustment	**(9,595)**	(17,439)
At the end of the year	**331,182**	310,879
Net book value:		
At the beginning of the year	**166,512**	184,627
At the end of the year	**163,249**	166,512

The amortization charges for the years ended 31 December 2019 and 2018 were included in "cost of sales" in the consolidated statement of profit or loss.

16 INTEREST IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation and business	Particulars of issued and paid-in capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activities
Impro Holdings Limited	The British Virgin Islands	United States Dollar ("US$")128,206	100%	–	Investment holding
Impro International Limited	Hong Kong	HK$1,000,000	–	100%	Investment holding and sales of investment casting, sand casting and precision machining products and provision of corporate and business development and customer relationship management functions
Impro Investment (Hong Kong) Limited	Hong Kong	HK$100	–	100%	Investment holding
Impro (China) Limited (鷹普(中國)有限公司)	The PRC	US$61,800,000	–	100%	Manufacturing investment casting, sand casting and precision machining products
Wuxi Impro-Bees Precision Bearing Co., Ltd. (無錫鷹貝精密軸承有限公司)	The PRC	US$15,800,000	–	100%	Manufacturing precision machining products
Impro Aerospace Components (Wuxi) Co., Ltd. (鷹普航空零部件(無錫)有限公司)	The PRC	US$20,000,000	–	100%	Manufacturing investment casting and precision machining products
Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司)	The PRC	US$1,000,000	–	100%	Providing surface treatment, including plating, anodizing, painting and coating
Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司)	The PRC	US$43,800,095	–	100%	Manufacturing investment casting and sand casting products

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTEREST IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business	Particulars of issued and paid-in capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activities
Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司)	The PRC	US$6,500,000	–	100%	Manufacturing sand casting products
Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司)	The PRC	Chinese Yuan ("RMB") 10,430,000	–	100%	Providing surface treatment, including plating, anodizing, painting and coating
Haimen Xinhai Special Plating Co., Ltd. (海門鑫海特種鍍飾有限公司)	The PRC	US$3,500,000	–	100%	Providing surface treatment, including plating, anodizing, painting and coating
Impross Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司)	The PRC	US$2,969,696.97	–	67%	Manufacturing machining parts and impellers
Impro Industries USA, Inc.	United States	US$500,000	–	100%	Managing logistic centre, warehouses, sales of investment casting, sanding casting and precision machining products and provision of customer maintenance service
Impro Europe SARL	Luxembourg	Euro ("EUR") 20,000	–	100%	Investment holding, managing logistic centre, sales of investment casting, sand casting and precision machining products and provision of customer maintenance service
Impro Germany GmbH	Germany	EUR250,000	–	100%	Provision of customer maintenance service
BFG Feinguss Niederrhein GmbH	Germany	EUR490,000	–	100%	Manufacturing investment casting products
BFG Feinguss Hessen GmbH	Germany	EUR25,000	–	100%	Manufacturing investment casting products
BFG Czech s.r.o.	Czech Republic	Czech Koruna 1,450,000	–	100%	Manufacturing investment casting products

16 INTEREST IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business	Particulars of issued and paid-in capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activities
Cengiz Makina Sanayi ve Ticaret Anonim Sirketi	Turkey	Turkish Lira ("TL") 7,005,000	–	100%	Manufacturing precision machining products
Impro Industries Mexico, S. de R.L. de C.V.	Mexico	Mexican Peso ("MEX$") 284,100,000	–	100%	Manufacturing precision machining products
Impro Aerospace Mexico, S. de R.L. de C.V.	Mexico	MEX$32,541,590	–	100%	Dormant

17 OTHER FINANCIAL ASSET

	At 31 December 2019 HK$'000	2018 HK$'000
Equity securities at FVOCI (non-recycling)		
– Unlisted equity securities	1,572	2,283

The unlisted equity securities are shares in a private company incorporated in the PRC and primarily engaged in financial guarantee business. The Group designated its investment at FVOCI (non-recycling). No dividends were received on this investment during the years ended 31 December 2019 and 2018.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 34(e).

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Raw materials	157,337	196,885
Work in progress	309,271	296,032
Finished goods	373,664	293,820
	840,272	786,737
Write down of inventories	(54,460)	(48,307)
	785,812	738,430

(b) The analysis of the amount of inventories recognized as an expense and included in the consolidated statement of profit or loss is as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Carrying amount of inventories sold	2,501,361	2,538,478
Provision for write-down of inventories	7,293	2,868
	2,508,654	2,541,346

All inventories are expected to be recovered within one year.

As at 31 December 2019, inventories of HK$nil (2018: HK$103,815,000) were pledged to secure certain bank facilities with commercial banks.

19 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Trade receivables	**766,544**	854,844
Bills receivable	**79,091**	87,162
	845,635	942,006
Less: loss allowance	**(29,648)**	(22,548)
	815,987	919,458

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

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

As at 31 December 2019, trade receivables of HK$nil (2018: HK$249,231,000) were pledged to secure certain bank facilities with commercial banks.

19 TRADE AND BILLS RECEIVABLES (Continued)

Aging analysis

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

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Within 1 month	**407,826**	460,082
1 to 3 months	**344,767**	386,943
Over 3 months but within 12 months	**63,394**	72,433
	815,987	919,458

Trade and bills receivables are due within 15-120 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 34(a).

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Prepayments	**34,004**	36,312
Value added tax recoverable	**36,097**	57,735
Other deposits and receivables	**17,806**	25,992
	87,907	120,039
Less: loss allowance (Note i)	**(11,594)**	(18,260)
	76,313	101,779

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Note:

(i) Subsequent to the completion of acquisition of Shenhai Group in June 2014, the Group entered into supplemental agreements with the former shareholders of Shenhai Group in November 2014 and June 2015, respectively, to finalize the consideration of the transfer of ownership interest of Shenhai Group under the original acquisition agreement between the Group and former shareholders of Shenhai Group (the "Seller"). The consideration was payable by instalment and the unpaid portion of HK$56,623,000 as at 31 December 2019 (2018: HK$62,460,000) was fully recognized in the consolidated statement of financial position.

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

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

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

On 8 January 2019, the Group appealed to the local People's Court in Shanghai by claiming the domestic law firm's unjust enrichment amounting to RMB8,000,000, being a portion of the Dissenting Payments. On 12 November 2019, the local People's Court in Shanghai made the court decision in favor of the Group's claim. The domestic law firm further appealed for the second instance.

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

During the year ended 31 December 2019, the Group received a total of RMB6,000,000 in three instalments. As at 31 December 2019, the unsettled portion of Dissenting Payments were recorded under other deposits and receivables in the Group's consolidated statement of financial position. The Group made provision of RMB10,000,000 (equivalent to HK$11,363,000) (2018: RMB16,000,000 (equivalent to HK$18,260,000)) on such other deposits and receivables.

All of prepayments, deposits and other receivables balances are expected to be recovered or recognized as expense within one year. The Group's exposure to credit risk related to prepayments, deposits and other receivables is disclosed in Note 34(a).

21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS

(a) Cash and cash equivalents comprise:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Cash at bank	**568,709**	235,303
Cash in hand	**256**	240
	568,965	235,543

(b) Pledged deposits and restricted deposits comprise:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Pledged deposits for		
– issuance of letters of credit	**4,803**	2,195

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Restricted deposits	**56,623**	–

The pledged bank deposits will be released upon the settlement of the relevant letters of credit by the Group or the termination of relevant banking facilities. The restricted deposits will be used for the settlement of the unpaid portion of deferred consideration payable (Note 20(i)).

21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(c) Reconciliation of profits before taxation to cash generated from operations

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000 (Note)
Profit before taxation		**638,530**	487,382
Adjustments for:			
– Depreciation of property, plant and equipment	6(c)	**302,212**	277,734
– Amortization of intangible assets	6(c)	**13,784**	14,461
– Amortization of deferred expenses	6(c)	**70,285**	86,020
– Net finance costs	6(a)	**57,974**	87,050
– Net loss/(gain) on disposal of property, plant and equipment	5(b)	**2,552**	(504)
– Impairment loss of goodwill	5(b)	**–**	141,178
– Impairment loss on trade and other receivables	6(c)	**2,520**	20,722
– Provision for write-down of inventories	6(c)	**7,293**	2,868
– Equity-settled share-based payment expenses	30(a)	**4,221**	–
Operating profit before changes in working capital		**1,099,371**	1,116,911
(Increase)/decrease in pledged deposits		**(2,608)**	844
Increase in inventories		**(68,354)**	(133,748)
Decrease/(increase) in trade and bills receivables		**78,881**	(201,387)
Decrease/(increase) in prepayments, deposits and other receivables		**30,028**	(40,047)
(Decrease)/increase in trade payables		**(96,662)**	97,708
Decrease in deferred income		**(793)**	(2,939)
(Decrease)/increase in other payables and accruals		**(18,898)**	32,205
Increase in defined benefit retirement plans obligation		**1,539**	997
Cash generated from operations		**1,022,504**	870,544

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK$13,230,000 were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 21(d)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(d) Reconciliation of liabilities arising from financing activities

The table below details changes in the group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans HK$'000 (Note 22)	Lease liabilities HK$'000 (Note 23)	Total HK$'000
At 1 January 2018	1,796,766	97,095	1,893,861
Changes from financing cash flows:			
Proceeds from bank loans	1,266,052	–	1,266,052
Repayment of bank loans	(1,234,434)	–	(1,234,434)
Payment of finance leases	–	(34,244)	(34,244)
Interest paid	(84,214)	–	(84,214)
Total changes from financing cash flows	(52,596)	(34,244)	(86,840)
Exchange adjustments	(36,190)	(5,239)	(41,429)
Other changes:			
New finance leases	–	73,000	73,000
Interest expenses (Note 6(a))	82,482	5,407	87,889
Capitalized borrowing costs (Note 6(a))	3,835	–	3,835
Total other changes	86,317	78,407	164,724
At 31 December 2018	1,794,297	136,019	1,930,316
Impact on initial application of IFRS 16 (Note)	–	22,817	22,817

21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(d) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans HK$'000 (Note 22)	Lease liabilities HK$'000 (Note 23)	Total HK$'000
At 1 January 2019	1,794,297	158,836	1,953,133
Changes from financing cash flows:			
Proceeds from bank loans	1,637,663	–	1,637,663
Repayment of bank loans	(2,453,258)	–	(2,453,258)
Capital element of lease rentals paid	–	(65,362)	(65,362)
Interest element of lease rentals paid	–	(5,384)	(5,384)
Interest paid	(73,562)	–	(73,562)
Total changes from financing cash flows	(889,157)	(70,746)	(959,903)
Exchange adjustments	2,212	(4,332)	(2,120)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	15,713	15,713
Interest expenses (Note 6(a))	66,433	5,384	71,817
Capitalized borrowing costs (Note 6(a))	3,620	–	3,620
Total other changes	70,053	21,097	91,150
At 31 December 2019	977,405	104,855	1,082,260

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

21 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(e) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
		(Note)
Within operating cash flows	9,222	13,230
Within investing cash flows	4,168	–
Within financing cash flows	70,746	34,244
	84,136	47,474

Note: As explained in the note to Note 21(c), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Lease rentals paid	79,968	47,474
Purchase of leasehold land	4,168	–
	84,136	47,474

22 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 31 December	
	2019	2018
	HK$'000	HK$'000
Short-term bank loans	450,919	394,256
Current portion of long-term bank loans	163,479	701,521
Within 1 year or on demand	614,398	1,095,777
After 1 year but within 2 years	292,218	434,579
After 2 years but within 5 years	70,789	263,941
	363,007	698,520
	977,405	1,794,297

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

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Bank loans		
– Secured (Note i)	20,231	581,487
– Unsecured	957,174	1,212,810
	977,405	1,794,297

22 BANK LOANS (Continued)

Notes:

(i) The bank loans were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	At 31 December	
	2019 HK$'000	2018 HK$'000
Freehold land (Note 12(ii))	9,783	10,042
Leasehold land (Note 12(ii))	–	14,433
Properties held for own use (Note 12(ii))	–	307,618
Machinery (Note 12(ii))	5,800	7,258
Furniture, fixtures and equipment (Note 12(ii))	–	2,011
Inventories (Note 18)	–	103,815
Trade receivables (Note 19)	–	249,231
	15,583	694,408

(ii) Fulfilment of loan covenants

Certain banking facilities of the Group are subject to the fulfilment of financial covenants relating to certain of the financial ratios of the Group or the subsidiary of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 34(b). As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities was breached.

23 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	31 December 2019		1 January 2019 (Note)		31 December 2018 (Note)	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	70,033	72,323	64,231	66,357	59,444	60,716
After 1 year but within 2 years	23,162	23,493	61,833	65,883	57,232	60,642
After 2 years but within 5 years	11,166	13,052	30,643	33,647	19,343	21,347
After 5 years	494	579	2,129	2,212	–	–
	34,822	37,124	94,605	101,742	76,575	81,989
	104,855	109,447	158,836	168,099	136,019	142,705
Less: total future interest expenses		(4,592)		(9,263)		(6,686)
Present value of lease liabilities		104,855		158,836		136,019

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

24 TRADE PAYABLES

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Trade payables	284,215	388,193

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

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

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Within 1 month	217,106	275,294
1 to 3 months	60,613	101,193
Over 3 months	6,496	11,706
	284,215	388,193

25 OTHER PAYABLES AND ACCRUALS

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Other payables (Note i)	216,268	255,829
Accrued expenses	42,712	54,131
	258,980	309,960

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

Note:

(i) An analysis of the other payables of the Group is as follows:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Deferred consideration payable (Note 20(i))	56,623	62,460
Salaries, wages, bonus and benefits payable	77,626	82,192
Payables for purchase of property, plant and equipment	16,596	36,723
Contract liabilities	6,663	11,371
Other tax payable	11,070	14,323
Others	47,690	48,760
	216,268	255,829

Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers. All contract liabilities brought-forward from the previous financial year end were fully recognized as revenue in the next financial year.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 28 June 2019, 30,230,000 share options were granted to directors, senior management and employees of the Group in three tranches under the Company's employee share option scheme (no share options were granted during the year ended 31 December 2018). 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. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 28 June 2019	2,000,400	On 28 June 2022	3.5 years
– on 28 June 2019	1,999,800	On 28 June 2023	4.5 years
– on 28 June 2019	1,999,800	On 28 June 2024	5.5 years
Options granted to senior management:			
– on 28 June 2019	1,558,646	On 28 June 2022	3.5 years
– on 28 June 2019	1,558,177	On 28 June 2023	4.5 years
– on 28 June 2019	1,558,177	On 28 June 2024	5.5 years
Options granted to employees:			
– on 28 June 2019	6,519,638	On 28 June 2022	3.5 years
– on 28 June 2019	6,517,681	On 28 June 2023	4.5 years
– on 28 June 2019	6,517,681	On 28 June 2024	5.5 years
Total share options granted	30,230,000		

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2019	
	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	–	–
Granted during the year	$2.40	30,230,000
Forfeited during the year	$2.40	(2,125,000)
Outstanding at the end of the year	$2.40	28,105,000
Exercisable at the end of the year	$2.40	–

The weighted average share price at the date of exercise for shares options exercised during the year was not applicable (2018: not applicable).

The options outstanding at 31 December 2019 had an exercise price of $2.40 (2018: not applicable) and a weighted average remaining contractual life of 4 years (2018: not applicable).

(Expressed in Hong Kong dollars unless otherwise indicated)

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

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

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
At the beginnings of the year	33,089	27,107
Provision for the year:		
– PRC Corporate Income Tax	40,030	56,101
– Hong Kong Profits Tax	39,204	30,066
– Income tax for tax jurisdictions outside PRC and Hong Kong	9,761	13,680
Tax paid:		
– PRC Corporate income Tax	(41,130)	(60,801)
– Hong Kong Profits Tax	(511)	(3,148)
– Income tax for tax jurisdictions outside PRC and Hong Kong	(6,763)	(29,010)
	73,680	33,995
Exchange adjustment	(450)	(906)
At the end of the year	73,230	33,089
Represented by:		
Taxation recoverable	(768)	(5,239)
Taxation payable	73,998	38,328
	73,230	33,089

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognized represents:

(i) The components of deferred tax assets recognized in the consolidated statement of financial position and the movements during the year are as follows:

	Inventory provision HK$'000	Unrealized profits on inventories HK$'000	Investment incentive HK$'000	Depreciation of property, plant and equipment HK$'000	Pension provision HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 January 2018	7,069	10,211	–	264	4,615	18,734	40,893
Recognized in profit or loss	438	2,805	27,170	71	(222)	6,382	36,644
Recognized in other comprehensive income	–	–	–	–	1,100	–	1,100
Exchange adjustment	(327)	–	(803)	–	(212)	(900)	(2,242)
At 31 December 2018 and 1 January 2019	7,180	13,016	26,367	335	5,281	24,216	76,395
Recognized in profit or loss	323	1,983	(25,616)	34	649	952	(21,675)
Recognized in other comprehensive income	–	–	–	–	1,853	101	1,954
Exchange adjustment	(170)	–	(548)	–	(149)	(438)	(1,305)
At 31 December 2019	7,333	14,999	203	369	7,634	24,831	55,369

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognized represents: (Continued)

(ii) The components of deferred tax liabilities recognized in the consolidated statement of financial position and the movements during the year are as follows:

	Capitalized deferred expenses HK$'000	Fair value adjustment arising from business combination HK$'000	Capitalized borrowing costs HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 January 2018	39,187	66,711	9,719	29,393	145,010
Recognized in profit or loss	352	(5,522)	692	17,186	12,708
Exchange adjustment	(1,814)	(3,051)	(470)	(1,623)	(6,958)
At 31 December 2018 and 1 January 2019	**37,725**	**58,138**	**9,941**	**44,956**	**150,760**
Recognized in profit or loss	**628**	**(5,091)**	**40**	**(6,757)**	**(11,180)**
Exchange adjustment	**(835)**	**(1,435)**	**(218)**	**(1,060)**	**(3,548)**
At 31 December 2019	**37,518**	**51,612**	**9,763**	**37,139**	**136,032**

(iii) Reconciliation to the consolidated statement of financial position:

	At 31 December 2019 HK$'000	2018 HK$'000
Net deferred tax assets recognized in the consolidated statement of financial position	**32,316**	22,635
Net deferred tax liabilities recognized in the consolidated statement of financial position	**(112,979)**	(97,000)
	(80,663)	(74,365)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(s), the Group did not recognize deferred tax assets of HK$21,542,000 (2018: HK$17,001,000) in respect of cumulative losses of the Group's subsidiaries in Germany, Czech, Luxembourg and Mexico of HK$67,879,000 (2018: HK$53,045,000) as at 31 December 2019, as it was not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entities. The tax losses arising from operations in Germany, Czech, Luxembourg and Mexico do not expire under current tax legislation.

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred tax liabilities not recognized

As at 31 December 2019, the Group has not recognized deferred tax liabilities of HK$200,687,000 (2018: HK$177,746,000) in respect of the dividend withholding tax on temporary differences relating to the undistributed profits of the subsidiaries of the Group amounted to HK$2,854,869,000 (2018: HK$2,510,337,000). The distributable profits will be principally contributed by the operation profits of its Hong Kong subsidiaries. The Group's directors are in opinion that the earnings of the Group's subsidiaries other than the subsidiaries in Hong Kong will be retained at the subsidiary level and not to be remitted to the Group in the foreseeable future, therefore no deferred tax liabilities arisen from undistributed profits was recognized as at 31 December 2019 and 2018.

28 DEFERRED INCOME

As at 31 December 2019, deferred income represented unamortized conditional government grants amounting to HK$56,999,000 (2018: HK$59,034,000) for acquisition of property, plant and equipment of the Group's PRC subsidiaries.

Deferred income is amortized over the useful life of the related property, plant and equipment upon the completion of the construction.

29 EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plans

The Group has two defined benefit retirement plans ("Plans") for its employees in the German subsidiaries that were acquired by the Group on 31 March 2013.

The Group provides pension benefits for those employees who retire in the form of life-long annuities. These are in-line with usual German market practice and do not constitute any unusual or company-specific risks or require any specific regulatory framework to be taken into account. The costs of the Plans are solely funded by the Group.

The Group also has a defined benefit retirement obligation for its employees in the Cengiz Makina that were acquired by the Group on 26 August 2014. Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). The liability is not funded, as there is no funding request. The obligation has been calculated by estimating the present value of the future probable obligation of Cengiz Makina arising from the employment termination.

The actuarial valuations of the defined benefit retirement obligation were performed in accordance with IAS 19 "Employee Benefits" as at 31 December 2019 and 2018 by actuaries using the projected unit credit method.

29 EMPLOYEE RETIREMENT BENEFITS (Continued)

(a) Defined benefit retirement plans (Continued)

(i) The amounts recognized in the consolidated statement of financial position are as follows:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Present value of defined benefit retirement plans obligation	**67,854**	60,977

(ii) Movements in the present value of the defined benefit retirement plans obligation

	At 31 December	
	2019	2018
	HK$'000	HK$'000
At the beginning of the year	**60,977**	65,970
Remeasurements effect recognized in other comprehensive income		
Actuarial loss	**9,240**	1,542
Exchange adjustment	**(3,902)**	(7,532)
	66,315	59,980
Benefits paid by the plans	**(3,668)**	(3,236)
Current service cost	**2,423**	2,173
Interest cost	**2,784**	2,060
At the end of the year	**67,854**	60,977

29 EMPLOYEE RETIREMENT BENEFITS (Continued)

(a) Defined benefit retirement plans (Continued)

(iii) Amounts recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Current service cost	2,423	2,173
Interest on defined benefit retirement plans obligation	2,784	2,060
Total amounts recognized in profit or loss (Note 6(b))	5,207	4,233
Actuarial loss	9,240	1,542
Exchange adjustment	(3,902)	(7,532)
Total amounts recognized in other comprehensive income	5,338	(5,990)
Total defined benefit costs	10,545	(1,757)

The weighted average duration of the defined benefit retirement plans obligation of the two Plans in German subsidiaries is 15 (2018: 15) years as at 31 December 2019.

The weighted average duration of the defined benefit retirement plans obligation of the Plan in Cengiz Makina is 25 (2018: 25) years as at 31 December 2019.

(iv) The current service cost and the interest on defined retirement obligation are recognized in the following line items in the consolidated statement of profit or loss:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Cost of sales	1,968	1,611
Administrative and other operating expenses	3,239	2,622
	5,207	4,233

29 EMPLOYEE RETIREMENT BENEFITS (Continued)

(a) Defined benefit retirement plans (Continued)

(v) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2019	2018
Discount rate	1.2% – 4.3%	1.7% – 3.6%
Pension inflation	1.5% – 10.0%	1.5% – 10.0%

The below analysis shows how the defined benefit obligation as at 31 December 2019 and 2018 would have increased/(decreased) as a result of 0.5% change in the significant actuarial assumptions:

	2019		2018	
	Increase in 0.5% HK$'000	Decrease in 0.5% HK$'000	Increase in 0.5% HK$'000	Decrease in 0.5% HK$'000
Discount rate	(4,465)	4,961	(4,030)	4,449
Pension inflation	2,524	(2,395)	2,483	(2,361)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participate in defined contribution retirement plans (the "Schemes") organized by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2019 and 2018. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 contribution to the plan vest immediately.

The Group's subsidiaries in jurisdictions other than the PRC, Hong Kong, Germany and Turkey, make contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdiction in which such subsidiary located.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

			Reserves			
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2018		128	543,673	1,110	99,688	644,599
Changes in equity for 2018:						
Profit and total comprehensive income for the year		–	–	–	32,687	32,687
Appropriation of dividends	30(b)	–	–	–	(100,500)	(100,500)
Balance at 31 December 2018 and 1 January 2019		128	543,673	1,110	31,875	576,786
Changes in equity for 2019:						
Profit and total comprehensive income for the year		–	–	–	350,978	350,978
Capitalization issue	30(c)	149,872	(149,872)	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs	30(c)	38,330	1,036,477	–	–	1,074,807
Equity settled share-based transactions	26	–	–	4,221	–	4,221
Appropriation of dividends	30(b)	–	–	–	(177,732)	(177,732)
Balance at 31 December 2019	35	188,330	1,430,278	5,331	205,121	1,829,060

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See Note 2(c).

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Interim dividend declared and paid of HK$0.04 per share (2018: HK$nil per share)	75,332	–
Final dividend proposed after the end of the reporting period of HK$0.032 per share (2018: HK$80.1 per share)	60,265	102,400
	135,597	102,400

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

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

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$80.1 per share (2018: HK$78.6 per share)	102,400	100,500

(Expressed in Hong Kong dollars unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital

(i) Issued share capital

	Note	2019 No. of shares	2019 HK$	2018 No. of shares	2018 HK$
Authorized:					
Ordinary shares of HK$0.1 each	(i)	13,500,000,000	1,350,000,000	13,500,000,000	1,350,000,000
Ordinary shares, issued and fully paid:					
At 1 January		1,277,912	127,791	1,277,912	127,791
Capitalization issue	(ii)	1,498,722,088	149,872,209	–	–
Issues of ordinary shares by initial public offering	(iii)	383,295,000	38,329,500	–	–
At 31 December		1,883,295,000	188,329,500	1,277,912	127,791

Notes:

(i) The Company was incorporated in the Cayman Islands on 8 January 2008 with an authorized share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. 100 shares of HK$0.1 each were issued and allotted to Impro Development Limited on 8 January 2008.

Pursuant to a written resolution of the board of directors of the Company passed on 21 January 2008, the authorized share capital of the Company was increased from HK$380,000 to HK$760,000 by the creation of an additional 3,800,000 Series A Preference Shares of HK$0.1 each.

Pursuant to a written resolution of the board of directors of the Company passed on 17 June 2011, the authorized share capital of the Company was increased from HK$760,000 to HK$1,350,000,000 by the creation of an additional 13,492,400,000 ordinary shares of HK$0.1 each.

Pursuant to a written resolution of the board of directors of the Company passed on 17 June 2011, the authorized 3,800,000 Series A Preference Shares of HK$0.1 each were reclassified to 3,800,000 ordinary shares of HK$0.1 each.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital (Continued)

(ii) Capitalization issue

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

(iii) Issue of ordinary shares by initial public offering

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

On 19 July 2019, pursuant to the full exercise of the over-allotment option by the joint global coordinators of the initial public offering, the Company allotted and issued an additional 49,995,000 shares with a par value of HK$0.10 at the offer price of HK$3.00 per share. The additional net proceeds from the exercise of over-allotment option amounted to HK$145,486,000 (after offsetting costs directly attributable to the issue of shares of HK$4,499,000), out of which HK$4,999,500 and HK$140,486,500 were recorded in share capital and share premium accounts, respectively.

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between consideration received for ordinary shares subscription net of any transaction costs directly attributable to the subscription and the par value of the ordinary shares subscribed.

(ii) Capital reserve

The capital reserve represents (i) the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of issued share capital of the Company pursuant to the reorganization prior to 2011; (ii) the equity component of the financial instruments issued; and (iii) the portion of the grant date fair value of unexercised share options granted that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(r)(iii).

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) Statutory surplus reserve

According to laws applicable to the foreign investment enterprises in the PRC and the Articles of Association of certain subsidiaries of the Company in the PRC, the PRC entities are required to appropriate part of their net profits as determined in accordance with the PRC GAAP to various reserves. These include general reserve and statutory surplus reserve.

For general reserve, appropriation to general reserve is at the discretion of the directors of the relevant PRC entities. The reserve can only be used for specific purposes and is not distributable as cash dividends.

For statutory surplus reserve, 10% of the net profit, as determined in accordance with the PRC GAAP, of the relevant PRC entities is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant PRC companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital. Any amount of funds outside of the 50% reserve balance can be distributed as by the relevant PRC entities, as advances or cash dividends, subject however, to complying with applicable requirements. Such dividend or loans could take a considerable amount of time to implement and to be processed by certain governmental agencies.

The Group's subsidiary Cengiz Makina established and operated in the Turkey are required to appropriate their statutory profits (after offsetting prior year losses) to statutory surplus reserves. In accordance with the Turkish Commercial Code ("TCC"), the statutory reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than HK$. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(v).

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(f)).

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management

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

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

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

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

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management (Continued)

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

	Note	31 December 2019 HK$'000	1 January 2019 HK$'000 (Note)	31 December 2018 HK$'000 (Note)
Current liabilities:				
Bank loans	22	**614,398**	1,095,777	1,095,777
Lease liabilities	23	**70,033**	64,231	59,444
		684,431	1,160,008	1,155,221
Non-current liabilities:				
Bank loans	22	**363,007**	698,520	698,520
Lease liabilities	23	**34,822**	94,605	76,575
		397,829	793,125	775,095
Total debt		**1,082,260**	1,953,133	1,930,316
Less: Cash and cash equivalents	21(a)	**(568,965)**	(235,543)	(235,543)
Pledged deposits	21(b)	**(4,803)**	(2,195)	(2,195)
Net debt		**508,492**	1,715,395	1,692,578
Total Equity		**4,026,957**	2,683,096	2,684,179
Net debt to capital ratio		**12.6%**	63.9%	63.1%

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

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in Note 22, neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

31 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Contracted for	225,351	176,127
Represented by:		
Construction of plants	65,908	47,426
Acquisition of machinery	159,443	128,701
	225,351	176,127

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

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

The Group is the lessee in respect of a number of properties and items of plant, machinery, motor vehicles and office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to these leases (see Note 2(c)). From 1 January 2019 onwards, future lease payments are recognized as lease liabilities in the statement of financial position in accordance with the policies set out in Note 2(j), and the details regarding the Group's future lease payments are disclosed in Note 23.

32 CONTINGENT LIABILITIES

(i) 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.

(ii) In addition to the litigations related to the Dissenting Payments as disclosed in Note 20, Shenhai Industrial received arbitration notice that on 8 October 2018 it was sued by the law firm, which had received the Dissenting Payments of RMB8,000,000, in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial's fire accident insurance as mentioned in Note 32(i) above. The law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB13,000,000, excluding the Dissenting Payments of RMB8,000,000, and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. The arbitrator considered the case is linked to the Group's appeal against the law firm on 8 January 2019, of which the court decision in favor of the Group's claim was made on 12 November 2019. However, the law firm further appealed to the court. As of the date of this report, the arbitration has been suspended as the result of the law firm's appeal may directly affect the final result of the arbitration. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Short-term employee benefits	**26,589**	22,047
Share-based payments	**1,456**	–
Contributions to defined contribution retirement plans	**1,357**	1,330
	29,402	23,377

Total remuneration is included in "staff costs" (see Note 6(b)).

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Guarantees issued by related parties

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

Certain bank facilities granted to the Group in Note 22 were guaranteed by Mr. Lu Ruibo, the ultimate controlling shareholder of the Company at 31 December 2018.

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 7% (2018: 9%) and 33% (2018: 39%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 15 to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	At 31 December 2019		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.3%	470,388	1,640
Less than 1 month past due	2.1%	198,534	4,158
1 to 3 months past due	5.7%	48,315	2,747
More than 3 months but less than 12 months past due	12.2%	23,943	2,912
More than 12 months past due	71.7%	25,364	18,191
		766,544	29,648

	At 31 December 2018		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.4%	670,291	2,484
Less than 1 month past due	3.1%	116,133	3,603
1 to 3 months past due	6.8%	36,866	2,489
More than 3 months but less than 12 months past due	14.8%	17,013	2,515
More than 12 months past due	78.8%	14,541	11,457
		854,844	22,548

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

Movement in the loss allowance in respect of trade receivables during the year is as follows:

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Balance at 1 January	22,548	16,889
Impairment loss recognized during the year	9,202	11,591
Amounts written off during the year	(1,759)	(5,099)
Exchange adjustment	(343)	(833)
Balance at 31 December	29,648	22,548

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss:

– origination of new trade receivables net of those settled resulted in a decrease of HK$844,000 (2018: an increase of HK$1,025,000);

– increase in past due trade receivables resulted in an increase in loss allowance of HK$10,046,000 (2018: HK$10,566,000); and

– a write-off of trade receivables with a gross carrying amount of HK$1,759,000 (2018: HK$5,099,000).

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with leading covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	At 31 December 2019					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December 2019 HK$'000
Bank loans	644,002	301,900	79,758	–	1,025,660	977,405
Trade payables	284,215	–	–	–	284,215	284,215
Other payables and accruals	258,980	–	–	–	258,980	258,980
Lease liabilities relating to leases previously classified under IAS 17 as finance leases	62,597	18,296	3,967	–	84,860	82,214
Other lease liabilities (Note)	9,726	5,197	9,085	579	24,587	22,641
	1,259,520	325,393	92,810	579	1,678,302	1,625,455

	At 31 December 2018					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December 2018 HK$'000
Bank loans	1,166,946	464,158	274,216	–	1,905,320	1,794,297
Trade payables	388,193	–	–	–	388,193	388,193
Other payables and accruals	309,960	–	–	–	309,960	309,960
Lease liabilities relating to leases previously classified under IAS 17 as finance leases	60,716	60,642	21,347	–	142,705	136,019
	1,925,815	524,800	295,563	–	2,746,178	2,628,469

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Other lease liabilities include amounts recognized at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See Note 2(c).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. For this purpose, the Group defines "total borrowings" as being interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings (as defined above) as at the end of each reporting period:

	At 31 December			
	2019		2018	
	Effective Interest rate %	Amount HK$'000	Effective Interest rate %	Amount HK$'000
Fixed rate borrowings:				
Bank loans	4.26%	220,122	4.51%	394,131
Lease liabilities (Note)	4.04%	104,855	4.64%	136,019
		324,977		530,150
Variable rate borrowings:				
Bank loans	4.30%	757,283	4.18%	1,400,166
Total borrowings		1,082,260		1,930,316
Fixed rate borrowings as a percentage of total borrowings		30.0%		27.5%

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased or increased the Group's profit after tax and retained profits by approximately HK$6,323,000 (2018: HK$11,524,000) in response to the general increase or decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to floating rate non-derivative instruments held by the Group, which expose the Group to cash flow interest rate risk. The impact on the Group's profit after tax (and retained profits) is estimated as an annualized impact on interest expense of such a change in interest rates. Fixed rate financial instruments are excluded for the above analysis. The analysis is performed on the same basis as 2018.

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, cash and bank loans balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, EUR, RMB and TL.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure as at 31 December 2019 and 2018 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in HK$ translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than HK$ into the Group's presentation currency are excluded.

	At 31 December	
	2019	2018
	HK$'000	HK$'000
US$		
Trade and bills receivables	**411,440**	346,082
Prepayments, deposits and other receivables	**18,581**	14,703
Cash and cash equivalents	**334,397**	29,895
Trade payables	**(24,469)**	(32,303)
Other payables and accruals	**(1,117)**	(2,972)
Bank loans	**(219,589)**	(582,773)
Net exposure arising from recognized assets and liabilities	**519,243**	(227,368)

	At 31 December	
	2019	2018
	HK$'000	HK$'000
EUR		
Trade and bills receivables	**70,919**	129,975
Prepayments, deposits and other receivables	**178**	1,199
Cash and cash equivalents	**23,662**	28
Trade payables	**(4,276)**	(21,667)
Other payables and accruals	**(393)**	(1,189)
Bank loans	**(64,781)**	(113,227)
Net exposure arising from recognized assets and liabilities	**25,309**	(4,881)

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(i) *Exposure to currency risk* (Continued)

	At 31 December 2019 HK$'000	2018 HK$'000
RMB		
Trade and bills receivables	2,018	–
Prepayments, deposits and other receivables	90,776	94,712
Cash and cash equivalents	468	–
Trade payables	(320,915)	(430,919)
Net exposure arising from recognized assets and liabilities	(227,653)	(336,207)

	At 31 December 2019 HK$'000	2018 HK$'000
TL		
Trade and bills receivables	9,793	7,211
Prepayments, deposits and other receivables	12,235	40,576
Cash and cash equivalent	13,426	7,364
Trade payables	(19,405)	(9,988)
Other payables and accruals	(7,794)	(11,034)
Net exposure arising from recognized assets and liabilities	8,255	34,129

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	%	HK$'000	%	HK$'000
US$	5%	21,917	5%	(9,598)
	(5%)	(21,917)	(5%)	9,598
EUR	5%	1,068	5%	(206)
	(5%)	(1,068)	(5%)	206
RMB	5%	(9,609)	5%	(14,153)
	(5%)	9,609	(5%)	14,153
TL	5%	322	5%	1,331
	(5%)	(322)	(5%)	(1,331)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at 31 December 2019 and 2018, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of the Group's subsidiaries with functional currency other than HK$ into the Group's presentation currency. The analysis is performed on the same basis as 2018.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Fair value measurement

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

– Level 3 valuations: Fair value measured using significant unobservable inputs.

Analysis on fair value measurement of derivative financial instruments are as follows:

	Fair value at 31 December 2019	Fair value measurement at 31 December 2019 categorized into		
	HK$'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial asset:				
– Unlisted equity securities	1,572	–	–	1,572
Trade and bills receivables:				
– Bills receivable	79,091	–	79,091	–

	Fair value at 31 December 2018	Fair value measurement at 31 December 2018 categorized into		
	HK$'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial asset:				
– Unlisted equity securities	2,283	–	–	2,283
Trade and bills receivables:				
– Bills receivable	87,162	–	87,162	–

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Fair value measurement (Continued)

Fair value hierarchy (Continued)

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of unlisted equity instruments is determined using the price book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. Unrealized loss in respect of unlisted equity securities of HK$672,000 (2018: HK$nil) were recognized in fair value reserve (non-recycling) in other comprehensive income during 2019. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained profits. Further disclosures in report of this asset is set out in Note 17.

The fair values of the bills receivable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts.

Except for unlisted equity securities and bills receivable, all financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at 31 December 2019 and 2018.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 HK$'000	2018 HK$'000 (Note)
Non-current assets			
Interest in subsidiaries		1,829,039	582,287
		1,829,039	582,287
Current assets			
Other receivables		15	1,054
Cash and cash equivalents		174	211
		189	1,265
Current liabilities			
Other payables		168	6,766
		168	6,766
Net current assets/(liabilities)		21	(5,501)
Total assets less current liabilities		1,829,060	576,786
NET ASSETS		1,829,060	576,786
CAPITAL AND RESERVES	30		
Share capital		188,330	128
Reserves		1,640,730	576,658
TOTAL EQUITY		1,829,060	576,786

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

Approved and authorized for issue by the board of directors on 12 March 2020.

	)	
Lu Ruibo	)	
	)	
	)	Directors
	)	
Wang Hui, Ina	)	
	)	
	)	

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

36 NON-ADJUSTING POST BALANCE SHEET DATE EVENTS

(a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in Note 30(b).

(b) The novel coronavirus ("COVID-19") outbreak since late January 2020 has caused temporary production halt in the Group's plants in the PRC. Up to the date of issuance of the financial statements, all of the Group's production plants in the PRC have resumed most of production. As there is great uncertainty of the spread of the epidemic, the degree of impact on different end markets and different customers in the future may be varied, and the impact on the overseas plants, warehousing and distribution facilities of the Group cannot be predicted at this stage and the Group will continuously assess its impact on the Group's financial performance.

37 COMPARATIVE FIGURES

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

38 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate parent of the Company is Impro Development Limited, a company incorporated in British Virgin Islands. The ultimate controlling party is Mr. Lu Ruibo, Chairman of the Group. Impro Development Limited does not produce financial statements available for public use.

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

HK$ million	2019	2018	2017	2016
	Year ended 31 December			
Consolidated statement of profit or loss				
Revenue	**3,640.2**	3,749.1	3,049.1	2,547.2
Gross profit	**1,131.5**	1,207.8	977.9	769.3
Gross profit margin	**31.1%**	32.2%	32.1%	30.2%
Other revenue	**23.4**	36.8	16.9	147.6
Other net income/(loss)	**5.5**	(160.2)	(32.0)	(34.1)
Selling and distribution expenses	**(160.6)**	(162.3)	(121.8)	(107.5)
Administrative and other operating expenses	**(303.3)**	(347.7)	(284.7)	(287.3)
Operating profit	**696.5**	574.4	556.3	488.0
Operating profit margin	**19.1%**	15.3%	18.2%	19.2%
Net finance costs	**(58.0)**	(87.0)	(76.2)	(80.4)
Share of profit of a joint venture	**–**	–	1.4	3.2
Profit before taxation	**638.5**	487.4	481.5	410.8
Income tax	**(99.5)**	(75.9)	(79.8)	(71.4)
Effective tax rate	**15.6%**	15.6%	16.6%	17.4%
Profit for the year	**539.0**	411.5	401.7	339.4
Net profit margin	**14.8%**	11.0%	13.2%	13.3%
Non-controlling interest	**(0.2)**	(1.9)	(0.1)	–
Profit attributable to shareholders (NPAT)	**538.8**	409.6	401.6	339.4
Adjusted NPAT	**575.9**	620.2	445.1	344.2
Adjusted profit attributable to shareholders	**575.7**	618.3	445.0	344.2
EBITDA	**1,082.8**	952.6	919.5	847.9
Adjusted EBITDA	**1,101.5**	1,141.8	917.6	776.2
Adjusted EBITDA%	**30.3%**	30.5%	30.1%	30.5%
Basic earnings per share (HK cents)	**31.8**	27.3	N/A	N/A
Dividend per share (HK$)	**0.072**	80.1	78.6	92.3

Financial Summary

HK$'million	2019	As of 31 December 2018	2017	2016
Consolidated statement of financial position				
Property, plant and equipment	**2,884.6**	2,761.7	2,638.9	2,298.6
Goodwill and intangible assets	**516.2**	542.8	729.9	680.4
Cash and cash equivalents and pledged deposits	**573.8**	237.7	245.4	191.4
Other current and non-current assets	**1,989.6**	2,025.8	1,719.9	1,437.0
Total assets	**5,964.2**	5,568.0	5,334.1	4,607.4
Bank loans and lease liabilities	**1,082.2**	1,930.3	1,893.9	1,909.2
Other current and non-current liabilities	**855.0**	953.5	911.1	718.2
Total liabilities	**1,937.2**	2,883.8	2,805.0	2,627.4
Net assets	**4,027.0**	2,684.2	2,529.1	1,980.0
Equity attributable to shareholders	**4,012.0**	2,669.2	2,515.5	1,980.0
Non-controlling interests	**15.0**	15.0	13.6	–
Total equity	**4,027.0**	2,684.2	2,529.1	1,980.0
Other information/Ratio				
Inventory turnover days	**118.0**	105.0	108.0	115.0
Trade & bills receivables turnover days	**90.0**	83.0	80.0	78.0
Trade payables turnover days	**49.0**	50.0	45.0	40.0
Capital expenditures (Capex)	**457.9**	567.7	365.5	448.1
Free cash inflow from operation (FCF)[1]	**461.8**	215.9	350.9	246.9
FCF/Adjusted NPAT[2]	**80.2%**	34.8%	78.8%	71.7%
Net gearing ratio	**12.6%**	63.1%	65.2%	86.8%
Net debt to adjusted EBITDA[3]	**0.5**	1.5	1.8	2.2
Interest coverage (times)[4]	**9.2**	6.3	6.8	5.5
Return on equity[5]	**16.1%**	15.8%	17.9%	17.7%

Notes:

1. FCF represented net cash generated from operating activities less net cash used in investing activities but add back cash used in acquisitions (as shown in the caption of "Acquisition of subsidiaries, net" and "Increase in restricted deposits").

2. Adjusted NPAT represents NPAT added back listing expenses, impairment loss of goodwill and amortisation and depreciation related to purchase price allocation, net of tax.

3. Adjusted EBITDA represents EBITDA added back listing expenses and impairment loss of goodwill.

4. Interest coverage is profit from operations divided by interest expenses on total interest-bearing bank loans.

5. Return on equity is profit for the year attributable to equity shareholders of the Company divided by the average of the beginning and ending total equity attributable to equity shareholders of the Company of the same year.