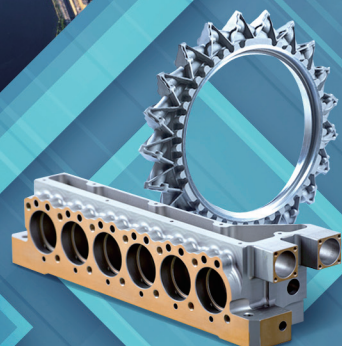
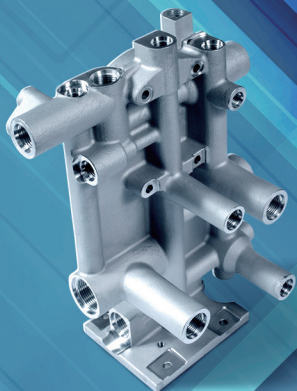


Impro

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

Stock Code: 1286



2022

INTERIM REPORT

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SUSTAINABILITY COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. LU Ruibo
Mr. IP Wui Wing Dennis

COMPANY SECRETARY

Mr. IP Wui Wing Dennis, CPA

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 803, 8/F, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

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

LEGAL ADVISER AS TO HONG KONG LAW

Morgan, Lewis & Bockius
Suites 1902–09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road 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
Bank of Communications Limited
BNP Paribas Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Citibank, N.A., Hong Kong Branch
DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

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

WEBSITE

www.improrecision.com

INVESTOR RELATIONS

ir@impro.com.hk

SHARE INFORMATION

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

KEY DIVIDEND INFORMATION

2022 Interim dividend of 8.0 HK cents per share

Ex-dividend date:
Wednesday, 24 August 2022

Closure of register of members:
Friday, 26 August 2022 to Tuesday, 30 August 2022
(both days inclusive)

Record date:
Tuesday, 30 August 2022

Interim dividend payable date:
On or before Thursday, 8 September 2022

FINANCIAL HIGHLIGHTS

HK\$ million	Six months ended 30 June		
	2022	2021	Change
Revenue	2,192.7	1,823.9	20.2%
Gross profit	643.3	498.3	29.1%
Gross profit margin	29.3%	27.3%	2.0%
Profit attributable to shareholders	267.7	175.0	53.0%
Adjusted profit attributable to shareholders ¹	335.0	214.2	56.4%
Basic earnings per share (HK cents)	14.22	9.29	53.1%
Adjusted basic earnings per share (HK cents)	17.79	11.37	56.5%
EBITDA ²	563.1	447.2	25.9%
EBITDA margin	25.7%	24.5%	1.2%
Adjusted EBITDA ³	638.5	477.4	33.7%
Adjusted EBITDA margin	29.1%	26.2%	2.9%
Last twelve months ("L12M") adjusted EBITDA ³	1,102.0	869.5	26.7%
Free cash inflow/(outflow) from operations ⁴	8.6	(260.2)	103.3%
HK\$ million	As at 30 June 2022	As at 31 December 2021	Change
Cash and cash equivalents and pledged deposits	753.9	579.0	30.2%
Total debt	1,876.9	1,544.9	21.5%
Net debt (total debt less cash and cash equivalents and pledged deposits)	1,122.9	965.9	16.3%
Total equity	4,349.8	4,379.4	-0.7%
Market capitalization ⁵	4,086.8	3,484.1	17.3%
Enterprise value ⁶	5,232.4	4,473.3	17.0%
HK\$ million	As at 30 June 2022	As at 31 December 2021	Change
Key Financial Ratios			
Adjusted return on equity ⁷	12.5%	10.1%	
Enterprise value to L12M adjusted EBITDA	4.7	4.8	
Net debt to L12M adjusted EBITDA	1.0	1.0	
Net gearing ratio	25.8%	22.1%	
Adjusted interest coverage ratio	21.3	18.5	

Notes:

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

	Six months ended 30 June	
	2022 HK\$ million	2021 HK\$ million
Profit for the period	268.0	176.6
Adjustments:		
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident, net of tax	72.5	—
— Gain on disposal of a Germany plant's land, property and machinery, net of tax	(13.1)	—
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant, net of tax	—	30.2
— Amortization and depreciation related to past purchase price allocation, net of tax	7.9	9.0
Adjusted profit for the period	335.3	215.8
Less: profit attributable to non-controlling interest	(0.3)	(1.6)
Adjusted profit attributable to shareholders of the Company	335.0	214.2

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

- 3 Adjusted EBITDA represents EBITDA adjusted for impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident and gain on disposal of a Germany plant's land, property and machinery for the six months ended 30 June 2022, and provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant for the six months ended 30 June 2021. Last twelve months ("L12M") adjusted EBITDA was derived from the last 12 months' adjusted EBITDA.

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

	Six months ended 30 June		L12M up to		Year ended
	2022 HK\$ million	2021 HK\$ million	30 June 2022 HK\$ million	31 December 2021 HK\$ million	
EBITDA	563.1	447.2	1,025.9	910.0	
Adjustments:					
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident	93.7	—	93.7	—	
— Net gain on disposal of a Germany plant's land, property and machinery	(18.3)	—	(18.3)	—	
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant	—	30.2	0.7	30.9	
Adjusted EBITDA	638.5	477.4	1,102.0	940.9	

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

- 5 Outstanding number of shares multiplied by the closing share price (HK\$2.17 per share as of 30 June 2022).

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

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to report the interim results of Impro Precision Industries Limited (the "Company", together with its subsidiaries, the "Group" or "Impro") for the six months ended 30 June 2022 (the "Period").

During the six months ended 30 June 2022, the revenue of the Group amounted to HK\$2,192.7 million, representing an increase of 20.2% as compared to the same period last year. Profit attributable to shareholders of the Company (the "Shareholders") amounted to HK\$267.7 million, representing a significant increase of 53.0% as compared to the same period last year. If excluding the one-off impairment provision charge after tax of approximately HK\$72.5 million against net book value of building, machinery, equipment and inventories, etc. damaged in the fire incident of the Group's Nantong plant in June 2022, the amortization and depreciation charges of HK\$7.9 million recorded in relation to the past purchase price allocation, and the one-off gain after tax of approximately HK\$13.1 million on the disposal of a Germany plant's land, property and machinery by the Group in the first half of this year, the adjusted profit attributable to the Shareholders of the Company amounted to HK\$335.0 million, representing a significant year-on-year increase of 56.4%. The adjusted basic earnings per share amounted to 17.79 HK cents (six months ended 30 June 2021: 11.37 HK cents). Taking into account the sound cash flow position and business prospects of the Group, the Board resolved to declare an interim dividend of 8.0 HK cents per share for the six months ended 30 June 2022 based on full year 2021's dividend payout ratio of approximately 45% and the adjusted earnings per share, representing a significant year-on-year increase of 175.9%.

In the first half of 2022, the aerospace and medical end-markets recorded the most significant growth with an increase of 38.3%. The industrial and other end-markets also showed a strong performance with an increase of 35.8%, driving the Group's revenue to achieve a satisfactory growth during the Period. However, the impact of the Russia-Ukraine war on the production and sales of passenger cars in Europe, the decrease in revenue from sales in Europe converted into Hong Kong dollars due to the depreciation of Euro, the economic slowdown caused by the repeated outbreaks of the pandemic in the PRC, the lockdown in Shanghai and the fire incident in Nantong plant have brought certain challenges to the Group. Yet, the advantages of risk diversification can be demonstrated in the Group's global footprints. Benefiting from the stimulus policies such as the investment in large-scale infrastructure projects launched by the US government, the performance of end-markets such as high horsepower engine, construction equipment, agricultural equipment and other industries in North America has contributed to a satisfactory revenue growth of the Group. At the same time, the economics of scale, the price adjustment of some products, the reduction of pressure of air freight delivery due to the expansion of production capacity and the strict control of other operating expenses resulted in a strong growth of 53.0% and 56.4% in the profit attributable to the Shareholders before and after adjustment respectively in the first half of 2022.

Revenue by end-markets

The Group sells its products to worldwide customers in diversified end-markets. During the Period, the aerospace and medical end-markets recovered significantly and recorded a significant growth in revenue to HK\$195.3 million, representing a year-on-year increase of 38.3%. The increase was mainly attributable to the recovery of the aerospace market due to the lifting of quarantine restrictions for international visitors on the entry to certain countries in Europe, Americas and Asia. Meanwhile, the number of new SKUs jointly developed by the Group and its customers in the aerospace end-market reached a record high last year, which also contributed to the increase in sales revenue in the first half of this year. The medical end-market benefited from the increasing demand for various medical equipment, which drove the growth of sales revenue.

In addition, the industrial and other components business also maintained a strong growth. During the Period, revenue from this segment increased by 35.8% year-on-year to HK\$1,067.7 million as compared to last year. Among which, revenue from other industrial end-markets such as building plumbing and drainage, fire alarm systems and food processing equipment and other relevant components increased by 56.6% year-on-year to HK\$209.2 million during the Period, while revenue from high horsepower engine, construction equipment and agricultural equipment end-markets increased by 61.1%, 62.1% and 34.6% year-on-year to HK\$208.6 million, HK\$197.3 million and HK\$162.7 million respectively. These end-markets mainly benefited from the increased investment in infrastructure projects launched by the US government, which drove up local demand and led to strong customer demand for related products. On the other hand, due to the very weak performance of the PRC's construction equipment industry in the first half of this year, revenue from the hydraulic end-market decreased by 15.2% year-on-year to HK\$163.9 million.

The overall weak demand in the European passenger car market and supply chain restrictions also affected the production and sales of passenger cars to a certain extent. Coupled with the impact caused by the slowdown of the PRC's economy and the fire incident in Nantong plant, which mainly serves the automotive market in Mainland China, the performance of the passenger car end-market was under pressure in the first half of this year, with sales revenue decreasing by 6.5% as compared to the same period last year. However, the commercial vehicle end-market benefited from the continuous growth of US and European market demand, which drove the sales revenue of commercial vehicles to increase by 17.2% during the Period.

By End-market	Six months ended 30 June					
	2022		2021		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Automotive	929.7	42.4%	896.5	49.2%	33.2	3.7%
— Passenger Car	476.5	21.7%	509.8	28.0%	(33.3)	-6.5%
— Commercial Vehicle	453.2	20.7%	386.7	21.2%	66.5	17.2%
Industrial & Others	1,067.7	48.7%	786.2	43.1%	281.5	35.8%
— High Horsepower Engine	208.6	9.5%	129.5	7.1%	79.1	61.1%
— Hydraulic Equipment	163.9	7.5%	193.2	10.6%	(29.3)	-15.2%
— Construction Equipment	197.3	9.0%	121.7	6.7%	75.6	62.1%
— Agricultural Equipment	162.7	7.4%	120.9	6.6%	41.8	34.6%
— Recreational Boat and Vehicle	126.0	5.8%	87.3	4.9%	38.7	44.3%
— Others	209.2	9.5%	133.6	7.3%	75.6	56.6%
Aerospace & Medical	195.3	8.9%	141.2	7.7%	54.1	38.3%
— Aerospace	119.4	5.4%	84.9	4.7%	34.5	40.6%
— Medical	75.9	3.5%	56.3	3.1%	19.6	34.8%
Total	2,192.7	100.0%	1,823.9	100.0%	368.8	20.2%

In local currencies, the revenue of the Group increased by 22.8% as compared to the six months ended 30 June 2021. This growth rate is higher than the reported revenue growth rate mainly due to the 8.9% depreciation of Euro against Hong Kong dollars for the six months ended 30 June 2022 as compared to the same period last year.

CHAIRMAN'S STATEMENT

Revenue by business segment

In terms of business segments, benefiting from the rapid increase in demand for high horsepower engines in the American and European markets and the relocation of a major customer in the PRC region in the same period last year, the sales base was relatively low in the first half of last year, driving the sand casting business to achieve a strong growth of 53.9%. The investment casting business also grew by 24.7%, mainly benefiting from the increasing customer demand in the aerospace and medical end-markets and some industrial end-markets, especially those in the Americas. In addition, the demand from customers of precision machining plants in Mexico and Turkey increased significantly, and the sales of both plants reached a record high during the Period. However, due to the significant depreciation of Euro by 8.9% during the Period, the sales growth of Turkey plant reduced after translating into Hong Kong dollars. At the same time, the hydraulic customers in the PRC were affected by the economic slowdown, resulting in a decrease in the demand for the Group's precision machining products in the PRC, which reduced the overall revenue of the precision machining segment, with a year-on-year increase of 11.2%. Affected by the lockdown in Shanghai and the fire incident in Nantong plant, the Group's revenue from the surface treatment business decreased by 16.9% year-on-year in the first half of this year.

By Business Segment	Six months ended 30 June					
	2022		2021		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Investment casting	933.8	42.6%	749.0	41.1%	184.8	24.7%
Precision machining	754.8	34.4%	679.0	37.2%	75.8	11.2%
Sand casting	380.6	17.4%	247.3	13.6%	133.3	53.9%
Surface treatment	123.5	5.6%	148.6	8.1%	(25.1)	-16.9%
Total	2,192.7	100.0%	1,823.9	100.0%	368.8	20.2%

Revenue by geographical market

In the first half of this year, the Group's revenue growth in the Americas was the strongest, with an increase of 45.8%, while the revenue in Europe also recorded a 10.8% growth. In Asia, the revenue declined slightly by 5.1% mainly due to the slowdown of the PRC's economy and the lockdown in Shanghai.

By Geographical Market	Six months ended 30 June					
	2022		2021		Increase/Decrease	
	HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	Change
Americas	1,046.4	47.7%	717.8	39.3%	328.6	45.8%
— United States	963.1	43.9%	659.2	36.1%	303.9	46.1%
— Others	83.3	3.8%	58.6	3.2%	24.7	42.2%
Europe	672.2	30.7%	606.6	33.3%	65.6	10.8%
Asia	474.1	21.6%	499.5	27.4%	(25.4)	-5.1%
— PRC	417.3	19.0%	456.1	25.0%	(38.8)	-8.5%
— Others	56.8	2.6%	43.4	2.4%	13.4	30.9%
Total	2,192.7	100.0%	1,823.9	100.0%	368.8	20.2%

CORPORATE DEVELOPMENT AND STRATEGY

In response to the changes in the global situation, the Group has formulated the strategies of “Global Footprint”, “Region Manufacturing” and “Dual Source Production” in the early years, and established comprehensive production facilities in three continents, namely Asia, Europe and Americas, to provide more reliable and convenient services for the Group’s global customers and effectively reduce the potential supply chain and tariff risks caused by geopolitics. The Group has established a global manufacturing and service network with 19 plants in the PRC, Germany, Turkey, Czech Republic and Mexico. Among which, the precision machining plant and sand casting plant in the Mexico SLP campus have been officially put into operation in November 2021, and the investment casting plant is expected to commence production by the fourth quarter of 2022. The aerospace and surface treatment plants are expected to complete civil construction and start installation of mechanical equipment by the end of this year, and will begin trial production and apply various aerospace plant related certifications by the first half of next year.

In the first half of 2022, the COVID-19 pandemic has been gradually slowing down. Although the global economy could not fully recover to the pre-pandemic level, various end-markets, including the aerospace industry, are well-positioned for recovery. New customers and new business developments are also emerging. With the continuous rebound of the aerospace business market and the Group’s forward-looking footprints in the aerospace and medical sectors, the business in the aerospace segment is expected to continue to be an important engine for the Group’s operating performance growth in the second half of the year and also the next few years.

In addition, by actively deploying in the aerospace and hydraulic markets during the Period, the Group successively announced the acquisition of relevant companies and businesses to further expand its sales network and customer resources, and to create comprehensive synergies in supply chain management and global footprints, bringing a more stable development to the Group.

Among which, the aerospace business is one of the future strategic development directions of the Group. After more than two years of the pandemic and the widespread vaccination of the general public around the world, the international aerospace demand has rebounded significantly this year. To prepare for the strong recovery of the aerospace market, in June this year, the Group announced the acquisition of Foshan Ameriforge Manufacturing Technology Co., Ltd.* (佛山市美鍛製造技術有限公司), which is principally engaged in the manufacturing, testing, assembling and special processing of high-precision, high-complexity and mission critical parts and assemblies for end-markets such as commercial aircrafts, industrial gas turbines and oil and gas equipment, following the establishment of the “Aerotek Business Unit” last year. Combined with the forward-looking footprints previously established in Mexico and Turkey, the Group is expected to further consolidate its global strategic footprints in the aerospace end-market and strengthen cooperation with global aerospace end customers.

The hydraulic industry with high engineering technology and high added value is also the direction that the Group is actively expanding. In July 2022, the Group announced the acquisition of the hydraulic orbital motor business and assets of Danfoss Power Solutions (Jiangsu) Co., Ltd.* (丹佛斯動力系統(江蘇)有限公司). According to the statistics released by the International Statistical Commission, the global hydraulic market has reached a market size of EUR29.9 billion by the end of 2022, reflecting that the size of the market is enormous. In addition, the US government has passed a bill for the strengthening of infrastructure projects last year, which has significantly driven the demand for hydraulic equipment. It is believed that after the completion of the above two transactions, the Group can demonstrate comprehensive operational synergies and value in various aspects such as product design, sales network, customer resources, supply chain management and global footprint of hydraulic components and systems.

* For identification purposes only

CHAIRMAN'S STATEMENT

In June this year, a serious fire broke out in one of the three production buildings of the Group's surface treatment plant in Nantong, Jiangsu Province, the PRC. The Group ensured part of the continuing operations by utilizing another surface treatment plant in Wuxi, Jiangsu Province and cooperating with other nearby third-party production facilities. In addition, the Group has purchased third-party property insurance for all of its plant facilities, and the losses related to the fire incident in Nantong have been fully provided for in the first half of this year. The property losses caused by the fire incident will be reduced due to any compensation made by the insurance company under the insurance policy. At the same time, the Group also conducts comprehensive safety inspections on other production plants to further strengthen the Group's safety equipment and ensure safe production.

OUTLOOK

Looking forward to the second half of 2022, the risk of global economic downturn has not been fully eliminated. The concerns about anti-inflation measures will trigger economic recession, while the ongoing Russia-Ukraine war has brought more political and economic uncertainties in Europe. In the PRC, the economic growth slowed down in the first half of this year due to the COVID-19 pandemic. However, as the pandemic gradually subsides, the situation may improve in the second half of the year. The Group will continue to closely monitor any changes in the market. As of 31 July 2022, the Group's total order on hand to be fulfilled in the next twelve months amounted to HK\$3,632 million, representing a year-on-year increase of 14.7%.

Factors such as the current energy price rises in the world, food shortages, infrastructure policies of the US government and the Russia-Ukraine war will drive the growth of the high horsepower engine, agricultural equipment and construction equipment end-markets respectively. The Group has kept an eye on these business opportunities, and its global footprints, especially the new production capacity of Mexico plants, will enable Impro to have unique competitive advantages and create greater commercial value for Impro.

In the future, the Group will continue to improve and strengthen its global footprints in Asia, Europe and Americas and constantly expand its three core business sectors, namely aerospace technology, fluid technology and mechanical technology, to enhance its own industry position and value in the supply chain of high-precision, high-complexity and mission-critical components. Meanwhile, the Group will continue to provide customers with high-quality and diversified products and services to further consolidate its own advantages and solidify its foundation, and proceed with the closing of the two announced acquisitions while continuing to look for new target companies with synergetic value in order to promote the "Twin Growth Engine" strategy in an effective manner to strive for long-term and sustainable profit growth for the Shareholders.

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

LU Ruibo

Chairman and Chief Executive Officer

Hong Kong, 11 August 2022

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

HK\$ million	Six months ended 30 June		
	2022	2021	Change
Revenue	2,192.7	1,823.9	20.2%
Gross profit	643.3	498.3	29.1%
Gross profit margin	29.3%	27.3%	2.0%
Other revenue	12.6	15.1	-16.6%
Other net loss	(49.6)	(37.3)	33.0%
Selling and distribution expenses	(103.3)	(90.6)	14.0%
Administrative and other operating expenses	(153.5)	(142.4)	7.8%
Profit from operations	349.5	243.1	43.8%
Operating profit margin	15.9%	13.3%	2.6%
Net finance costs	(18.6)	(10.0)	86.0%
Profit before taxation	330.9	233.1	42.0%
Income tax	(62.9)	(56.5)	11.3%
Adjusted effective tax rate ¹	17.2%	21.5%	-4.3%
Profit for the period	268.0	176.6	51.8%
Net profit margin	12.2%	9.7%	2.5%
Attributable to:			
Equity shareholders of the Company	267.7	175.0	53.0%
Non-controlling interest	0.3	1.6	-81.3%
	268.0	176.6	51.8%

Note:

1 Adjusted effective tax rate is computed as below:

	Six months ended 30 June	
	2022 HK\$ million	2021 HK\$ million
Profit before taxation	330.9	233.1
Add:		
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident	93.7	—
— Gain on disposal of a Germany plant's land, property and machinery	(18.3)	—
— Provision for staff severance and related costs in relation to the closure of a Germany manufacturing plant	—	30.2
Adjusted profit before taxation	406.3	263.3
Income tax	(62.9)	(56.5)
Add: tax impact on adjusting items	(16.0)	—
Adjusted income tax	(78.9)	(56.5)
Adjusted effective tax rate	19.4%	21.5%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue for the period ended 30 June 2022 increased by 20.2% compared to last corresponding period to HK\$2,192.7 million.

Gross profit and gross profit margin

The Group's gross profit increased by HK\$145.0 million, or 29.1% to HK\$643.3 million for the period ended 30 June 2022 as compared to HK\$498.3 million for the period ended 30 June 2021. The gross profit of investment casting has experienced a strong rebound of HK\$65.1 million, or 30.4% to HK\$279.4 million during the Period, mainly due to strong aerospace & medical and industrial & others sales attained in Europe region. The gross profit of the sand casting business also increased HK\$56.7 million, or 95.9% to HK\$115.8 million due to strong sales growth to the high horsepower engine end market in the Americas and China region, but partly offset by the high start up costs in the Mexico new sand casting plant. Similarly, the gross profit of precision machining plant also increased mildly by HK\$30.2 million to HK\$211.7 million during the period thanks to the strong demand of commercial vehicle end-market products in each of Turkey and Mexico plants, partly offset by the sluggish China hydraulic end-market products sales. Surface treatment business reported a 16.3% drop in gross profit to 36.4 million mainly a result of lockdown in Shanghai and the fire incident in Nantong plant during the Period.

The Group's gross profit margin was 29.3% for the period ended 30 June 2022, compared to 27.3% in the last corresponding period. The increase in gross profit margin was mainly attributable to higher customer demand of our products and price adjustment on certain of our products as accordance with the contract terms with customers.

Other revenue

The Group's other revenue during the period ended 30 June 2022 decreased by HK\$2.5 million to HK\$12.6 million (six months ended 30 June 2021: HK\$15.1 million). Other revenue mainly represented various discretionary incentives from the local PRC governments in relation to technology development and other incentive programs.

Other net loss

The Group recorded other net loss of HK\$49.6 million for the period ended 30 June 2022 (six months ended 30 June 2021: other net loss of HK\$37.3 million). Other net loss mainly represented the impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident of HK\$93.7 million, gain on disposal of a Germany plant's land, property and machinery of HK\$18.3 million and the net foreign exchange gain of HK\$25.5 million arising mainly from the devaluation of RMB against Hong Kong Dollars during the Period. In 2021 corresponding period, the net loss mainly represented a provision of staff severance and related expenses of HK\$30.2 million in relation to the closure of a Germany production plant.

Selling and distribution expenses

The Group's selling and distribution expenses increased by HK\$12.7 million or 14.0% to HK\$103.3 million for the period ended 30 June 2022. Selling and distribution expenses increased mainly reflect the growth in revenue during the Period and the rate of growth was lower than revenue growth rate as the air freight expenses decreased substantially in this year following a more balanced demand supply equilibrium. Selling and distribution expenses to revenue ratio was 4.7% for the Period (six months ended 30 June 2021: 5.0%).

Administrative and other operating expenses

The Group's administrative and other operating expenses increased by HK\$11.1 million, or 7.8%, to HK\$153.5 million for the period ended 30 June 2022, as compared to HK\$142.4 million for the last corresponding period. Legal and professional fees increased by HK\$5.2 million as a result of the numerous acquisitions announced during the Period and staff costs also increased by HK\$3.8 million mainly due to salary inflation.

Net finance costs

The Group's net finance costs increased substantially to HK\$18.6 million for the period ended 30 June 2022 from HK\$10.0 million for the last corresponding period. The increase was mainly due to increase in the average bank loan balance and a much higher U.S. dollar borrowing rate during the Period.

Income tax

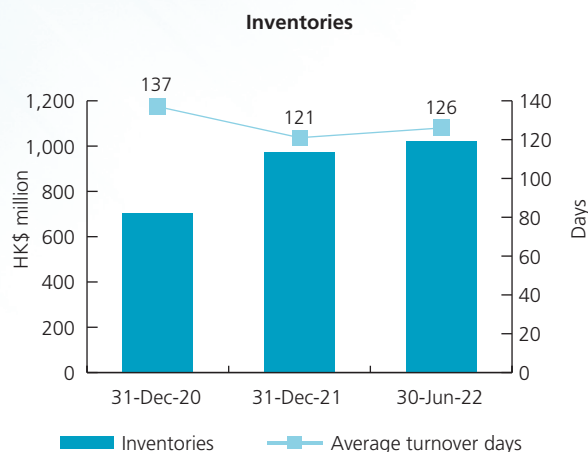
The Group's income tax expense increased to HK\$62.9 million for the period ended 30 June 2022 from HK\$56.5 million for the last corresponding period. A higher income tax expenses during the Period was mainly due higher reported profit during the Period.

Working Capital

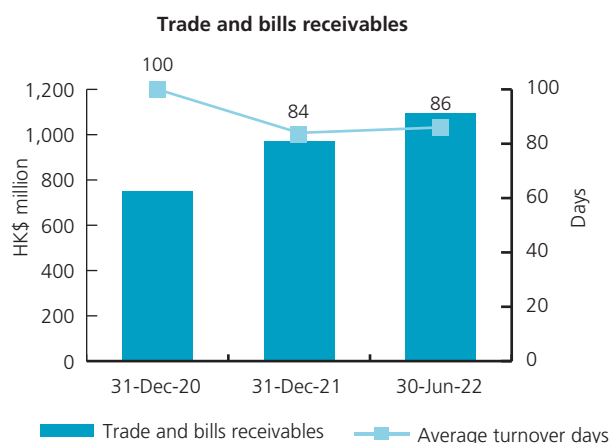
HK\$ million	As at 30 June 2022	As at 31 December 2021
Inventories	1,023.8	974.6
Trade and bills receivables	1,092.0	972.2
Prepayments, deposits and other receivables	234.8	219.9
Trade payables	(440.4)	(349.3)
Other payables and accruals	(313.4)	(381.7)
Deferred income	(138.9)	(140.8)
Defined benefit retirement plans obligation	(58.9)	(65.2)
Total working capital	1,399.0	1,229.7

MANAGEMENT DISCUSSION AND ANALYSIS

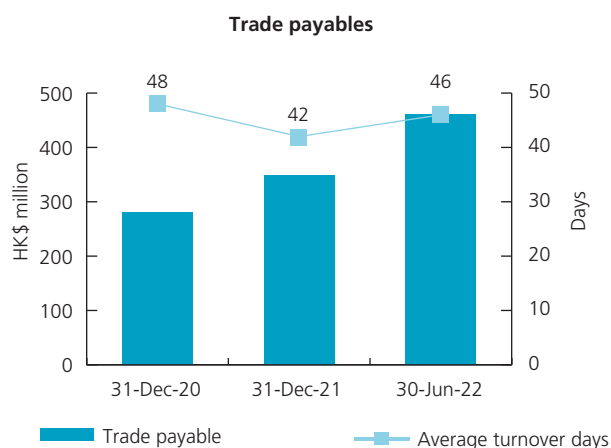
Inventories increased HK\$49.2 million to HK\$1,023.8 million as of 30 June 2022 (31 December 2021: HK\$974.6 million) mainly due to the increase in finished goods to cope with the increase in customers' demand during the Period. Inventory turnover days increase 5 days to 126 days as at 30 June 2022 from 121 days as at 31 December 2021 as the Group strategically increased the finished goods holding in overseas warehouses to cope with higher demand from customers.



Trade and bills receivables increased HK\$119.8 million to HK\$1,092.0 million as of 30 June 2022 (31 December 2021: HK\$972.2 million) due to increase in sales. Trade receivables turnover days increased 2 days from 84 days as at 31 December 2021 to 86 days as at 30 June 2022, mainly due to increase in overdue receivables from China customers as a result of lockdown in Shanghai in second quarter of 2022. The management of the Group are of the view that the Group's receivables are of high quality and the Group has not encountered any material default payment from customers. As at 30 June 2022, current receivables and overdue balances of less than 30 days has maintained at 94.2% (31 December 2021: 94.5%) of the balance of the gross trade and bills receivables.



Trade payables increased HK\$91.1 million to HK\$440.4 million as of 30 June 2022 (31 December 2021: HK\$349.3 million). The increase was mainly due to increase in purchases which was consistent with the business growth during the Period. Trade payable turnover days as at 30 June 2022 increased mildly to 46 days as compared to 42 days as at 31 December 2021.



EBITDA and net profit

The Group's EBITDA (earnings before interest, taxation, depreciation and amortization) was HK\$563.1 million, or EBITDA margin of 25.7%, as compared to HK\$447.2 million, or EBITDA margin of 24.5% in last corresponding period. Profit attributable to shareholders of the Company was HK\$267.7 million, as compared to HK\$175.0 million from last corresponding period. Net profit margin for the Period was 12.2%, as compared to 9.7% in last corresponding period.

Excluding the impact of impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident and gain on disposal of a Germany plant's land, property and machinery, the Group's adjusted EBITDA margin was 29.1%, which was 2.9% higher than 26.2% attained in last corresponding period, and the adjusted profit attributable to shareholders of the Company was HK\$335.0 million for the period ended 30 June 2022, an increase of 56.4% as compared to HK\$214.2 million from last corresponding period. Adjusted net profit margin was 15.3% for the period ended 30 June 2022, as compared to 11.8% attained in last corresponding period.

Financial resources and liquidity

As at 30 June 2022, the total assets of the Group increased by 4.5% to HK\$7,359.3 million and shareholders' equity decreased by 0.7% to HK\$4,349.8 million as compared to the amount as at 31 December 2021. The increase of total assets was mainly attributable to the addition in construction in progress and property, plant and equipment as the Group continued its investment in plants construction at Mexico. The Group's current ratio as at 30 June 2022 was 1.7, the same level as at 31 December 2021.

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

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

	Six months ended 30 June	
	2022 HK\$ million	2021 HK\$ million
Cash generated from/(used in):		
Operating activities	443.0	311.0
Investing activities	(434.4)	(571.2)
Financing activities	191.4	45.3
Net movement in cash	200.0	(214.9)

MANAGEMENT DISCUSSION AND ANALYSIS

Cash flows generated from operating activities was HK\$443.0 million, an increase of HK\$132.0 million compared to HK\$311.0 million in the last corresponding period. The increase in cash flows from operating activities was mainly due to increase in profits during the Period but partially offset by higher working capital on trade and bills receivables and inventories.

Cash flows used in investing activities was HK\$434.4 million, a decrease of HK\$136.8 million compared to HK\$571.2 million in the last corresponding period. The major items on investing activities were payment of capital expenditure which include purchases of machinery, equipment, tooling and infrastructure amounted to HK\$420.4 million.

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

	Six months ended 30 June	
	2022 HK\$ million	2021 HK\$ million
Payment of property, plant and equipment	(420.4)	(538.6)
Payment for deferred expenses	(40.2)	(35.7)
Others	26.2	3.1
Net cash used in investing activities	(434.4)	(571.2)

Cash flows generated from financing activities was HK\$191.4 million, compared to cash flows generated from financing activities of HK\$45.3 million in last corresponding period. Major movements during the Period mainly the proceeds from bank loans of HK\$876.7 million, repayment of bank borrowings of HK\$524.1 million and 2021 second interim dividend payment of HK\$135.6 million.

The table below sets forth the cash generated from financing activities for the periods indicated:

	Six months ended 30 June	
	2022 HK\$ million	2021 HK\$ million
Proceeds from bank loans	876.7	486.8
Repayment of bank loans	(524.1)	(377.6)
Lease rentals paid	(5.2)	(18.2)
Dividend paid	(135.6)	(33.9)
Interest paid	(20.4)	(11.8)
Net cash generated from financing activities	191.4	45.3

Indebtedness

As at 30 June 2022, the Group's total borrowings was HK\$1,876.9 million, an increase of HK\$332.0 million from HK\$1,544.9 million as at 31 December 2021. The increase in borrowings was due to increase in working capital during the Period.

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

	As at 30 June 2022 HK\$ million	As at 31 December 2021 HK\$ million
Current bank loans	948.8	786.7
Non-current bank loans	915.4	742.2
Current lease liabilities	8.2	9.4
Non-current lease liabilities	4.5	6.6
Total borrowings	1,876.9	1,544.9

As at 30 June 2022, the Group had total banking facilities available for draw-down of HK\$1,158.4 million.

The Group's net gearing ratio as at 30 June 2022 was 25.8% (31 December 2021: 22.1%). This ratio is based on total borrowings less cash and cash equivalents and pledged deposits divided by total equity. The increase in gearing ratio during the Period was mainly due to increase in borrowing to finance the increase in working capital and the plants construction at Mexico.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. Capital expenditures of the Group amounted HK\$353.1 million for the six months ended 30 June 2022 which was primarily used in the production capacity expansion in our PRC and Turkey plants, as well as the infrastructure and machinery spending for the new plants in Mexico. Among which, the Group incurred HK\$217.7 million for the construction of new plants in Mexico, including the purchases of machinery for and construction of precision machining, sand casting, investment casting, aerospace and surface treatment plants. Capital commitments contracted for but not incurred by the Group as at 30 June 2022 amounted to HK\$233.3 million, which were mainly related to plants construction and acquisition of machinery.

Pledge of Assets

No property, plant and equipment of the Group were pledged as security for bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

No material contingent liability exists as at 30 June 2022.

Future Plans for Material Investments or Capital Assets

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

Material Acquisitions and Disposal of Subsidiaries

In June 2022, Impro Aerotek Limited, an indirect wholly-owned subsidiary of the Company conditionally agreed to acquire the entire equity interest of Foshan Ameriforge Manufacturing Technology Co., Ltd. at a total consideration of RMB59,270,000. The acquisition has not been completed as of the date of the report. Except for the acquisition, there was no material acquisition and disposal of subsidiaries during the six months ended 30 June 2022.

Treasury Policies and Exposure to Fluctuation in Exchange Rates

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

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

To reduce the exposure to foreign currency exchange risk, the Group's management monitors the foreign exchange rates from time to time and may adjust the currency mix of the loan portfolio in a proportion that resembled the respective underlying sales currency proportion with a view to reduce the impact of exchange rate fluctuations. As at 30 June 2022, the borrowings of the Group were denominated in Hong Kong dollar, US dollar, RMB and Euro dollar, in which, HK\$204.8 million of borrowings were at fixed interest rates.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the six months ended 30 June 2022, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 30 June 2022, the Group had 7,778 full-time employees of whom 6,136 were from Mainland China and 1,642 were from Turkey, Germany, Mexico, Hong Kong, United States, and other countries. Total staff costs, including the emoluments of the Directors, amounted to HK\$571.5 million for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$547.1 million).

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

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

Use of Proceeds from the Global Offering

The Company completed the Global Offering on 28 June 2019 with the Over-allotment Option (as defined in the Prospectus) exercised in full on 19 July 2019. The amount of the net proceeds received from the Global Offering (including the full exercise of the Over-allotment Option) after deducting underwriting fees and commissions and other expenses in connection with the Global Offering was HK\$1,031.5 million (the "Actual Amount of the Net Proceeds"), which is more than the estimated amount set forth in the Prospectus. Thus, the Company applied the Actual Amount of the Net Proceeds on the use of proceeds plan as stated in the Prospectus for the period from 1 July 2019 to 30 June 2022 on a pro rata basis except for repayment of interest-bearing bank borrowings.

The table below sets forth the actual use of the Net Proceeds from the Global Offering up to the period ended 30 June 2022:

Business strategies as set out in the Prospectus	Intended timeframe for the use of the Net Proceeds	Planned Proceeds as stated in Prospectus		Actual amount of the Net Proceeds		Utilized amount of the Actual Amount of Net Proceeds as at 30 June 2022	Unutilized amount of the Actual Amount of Net Proceeds as at 30 June 2022
		HK\$ million	Proportion	HK\$ million	Proportion	HK\$ million	HK\$ million
Capital expenditures for production							
capacity expansion	By 2020	361.3	40.0%	437.9	42.5%	437.9	–
Repayment of interest-bearing bank borrowings	By 2020	271.1	30.0%	271.1	26.3%	271.1	–
Acquisition of business (note 1)	By 2023	180.7	20.0%	219.0	21.2%	–	219.0
Working capital and general corporate purpose	By 2020	90.4	10.0%	103.5	10.0%	103.5	–
		903.5	100.0%	1,031.5	100.0%	812.5	219.0

Note 1: The unutilized proceeds are intended to be used for the same purposes as disclosed in the use of proceeds plan in the Prospectus. As at the date of this report, the Company had disclosed two acquisitions during the reporting period and up to the date of this report. Subject to the satisfactory completion of all conditions precedent as described in each of the two acquisitions, the Board of Directors currently expects the unutilized net proceeds as at 30 June 2022 will be fully utilized by 31 December 2022.

FURTHER INFORMATION ON THE GROUP

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Taking into consideration the profitability of the Group and the financial resources required for business expansion, the Board has resolved to declare an interim dividend of 8.0 HK cents per Share (six months ended 30 June 2021: 2.9 HK cents per Share) for the six months ended 30 June 2022 in the total amount of approximately HK\$150.7 million (six months ended 30 June 2021: HK\$54.6 million). Relevant dates for interim dividend payment are set out below.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	24 August 2022
Closure of register of members	26 August to 30 August 2022 (both days inclusive)
Record date	30 August 2022
Dividend payment date	on or before 8 September 2022

In order to qualify for the interim dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration by 4:30 p.m. on Thursday, 25 August 2022.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the code provisions of the CG Code and to a large extent the recommended best practices in the CG Code during the six months ended 30 June 2022, except for the deviation from code provision A.2.1 of the CG Code as described below.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the six months ended 30 June 2022.

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

As of 30 June 2022, 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")) 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, were as follows:

THE COMPANY AND ASSOCIATED CORPORATION

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

<u>Name of Directors</u>	<u>Nature of interest/ capacity</u>	<u>Number of Shares or underlying Shares</u>	<u>Percentage of the Company's issued share capital</u>
Mr. LU Ruibo ("Mr. LU")	Interest in a controlled corporation ⁽¹⁾	1,213,118,787	64.41
	Spouse interest ⁽²⁾	1,500,000	0.08
	Beneficial owner	9,239,000	0.49
Ms. WANG Hui, Ina ("Ms. WANG")	Beneficial owner ⁽²⁾	1,500,000	0.08
	Spouse interest ⁽³⁾	1,222,357,787	64.91
Mr. YU Yuepeng	Beneficial owner ⁽⁴⁾	1,500,000	0.08
Ms. ZHU Liwei	Beneficial owner ⁽⁵⁾	1,500,000	0.08
Mr. WANG Dong	Beneficial owner ⁽⁶⁾	1,500,000	0.08

FURTHER INFORMATION ON THE GROUP

(ii) Interest in associated corporation

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

Notes:

- (1) All issued shares of Impro Development Limited ("Impro Development") are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development. Accordingly, Mr. LU is deemed to be interested in the 1,213,118,787 Shares held by Impro Development under the SFO.
- (2) Ms. WANG was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (3) Ms. WANG is the spouse of Mr. LU and is deemed to be interested in the shares which Mr. LU is interested in pursuant to Divisions 7 and 8 of Part XV and section 352 of the SFO. She is neither a director of Impro Development nor holds any interest, beneficial or otherwise, in the issued shares of Impro Development.
- (4) Mr. YU Yuepeng was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (5) Ms. ZHU Liwei was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.
- (6) Mr. WANG Dong was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

Save as disclosed above, as at 30 June 2022, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have any interests or short positions in any of the Shares or the underlying Share and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As of 30 June 2022, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled company) in the Shares and the underlying Shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Name of substantial shareholders	Nature of interest/capacity	Number of Shares held	Percentage of the Company's issued share capital
Impro Development	Beneficial owner	1,213,118,787	64.41
Mr. LU	Interest in controlled corporation and beneficial owner	1,222,357,787	64.91
	Spouse Interest	1,500,000	0.08
Baring Private Equity Asia V Holding (2) Limited ("Baring") ⁽¹⁾	Beneficial owner	187,153,654	9.94
Casting Holdings Limited ⁽¹⁾⁽²⁾	Interest in controlled corporation	187,153,654	9.94
The Baring Asia Private Equity Fund V, L.P. ⁽²⁾	Interest in controlled corporation	187,153,654	9.94
Baring Private Equity Asia GP V, L.P. ⁽²⁾	Interest in controlled corporation	187,153,654	9.94
Baring Private Equity Asia GP V Limited ⁽²⁾	Interest in controlled corporation	187,153,654	9.94
BPEA EQT Holdings AB ⁽²⁾	Interest in controlled corporation	187,153,654	9.94
EQT AB ⁽²⁾	Interest in controlled corporation	187,153,654	9.94
Jean Eric Salata Rothleder ⁽²⁾	Interest in controlled corporation	187,153,654	9.94
GT Cedar Capital (Hong Kong) Limited ("GT Cedar") ⁽³⁾	Beneficial owner	104,205,123	5.53
Genertec Investment Management Co. Ltd. ⁽⁴⁾	Interest in a controlled corporation	104,205,123	5.53
China General Technology (Group) Holding Company Limited ⁽⁴⁾	Interest in a controlled corporation	104,205,123	5.53

Notes:

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

On 16 March 2022, a securities purchase and merger agreement was entered into between, amongst others, (i) Jean Eric Salata Rothleder and (ii) EQT AB, pursuant to which EQT AB will (via BPEA EQT Holdings AB) acquire, inter alia, 100% interest in Baring Private Equity Asia GP V Limited (the "Acquisition"). Once the Acquisition is completed, Jean Eric Salata Rothleder will no longer be deemed a substantial shareholder of the Company under the SFO.
- (3) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.
- (4) Genertec Investment Management Co. Ltd. is owned as to 99.7% by China General Technology (Group) Holding Company Limited and 0.3% by China National Technical Import & Export Corporation, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd. and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares held by GT Cedar.

FURTHER INFORMATION ON THE GROUP

Save as disclosed above, as at 30 June 2022, the Directors are not aware of any persons other than the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

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

As at 30 June 2022, the Company had granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and no option had been granted under the Post-IPO Share Option Scheme.

PRE-IPO SHARE OPTION SCHEME

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

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

The table below sets forth the movement of share options granted to Directors and other grantees under the Pre-IPO Share Option Scheme during the six months ended 30 June 2022:

Grantees	Date of grant	Exercise price per option	Exercise period	Number of options ⁽¹⁾					Outstanding as of 30 June 2022
				Outstanding as of 1 January 2022	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
Directors									
Ms. WANG Hui, Ina	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Mr. YU Yuepeng	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Ms. ZHU Liwei	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Mr. WANG Dong	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	1,500,000	–	–	–	–	1,500,000
Other employees	28/6/2019 ⁽²⁾	HK\$2.4	28/06/2022–24/12/2024	19,692,500	–	–	–	(1,217,500)	18,475,000
				25,692,500	–	–	–	(1,217,500)	24,475,000

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 1,217,500 shares lapsed during the six months ended 30 June 2022 following the cessation of employment of certain grantees.

The total number of Shares of the company that would be issued upon the exercise of all outstanding share options as at the date of this report are 24,237,500 which represents approximately 1.3% of the issued share capital of the Company as at the date of this report.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme during the six months ended 30 June 2022.

POST-IPO SHARE OPTION SCHEME

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

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

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

FURTHER INFORMATION ON THE GROUP

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

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

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

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

EVENTS AFTER THE END OF REPORTING PERIOD

Save for the interim dividend as disclosed in the paragraphs under “interim dividend and closure of register of members” and the acquisition of the hydraulic orbital motor business of Danfoss Power Solutions (Jiangsu) Co., Ltd. at a total consideration of EUR65 million by Impro Fluidtek Limited, an indirect wholly-owned subsidiary of the Company as disclosed in the announcement dated 5 July 2022, no other material events affecting any member of the Group occurred after the end of the reporting period up to the date of this interim report.

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE

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

REVIEW OF THE INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2022. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company with senior management members and the external auditor of the Company.

The unaudited interim financial report of the Group for the six months ended 30 June 2022 has also been reviewed by the Company’s external auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants.

INDEPENDENT REVIEW REPORT

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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 29 to 54 which comprises the consolidated statement of financial position of Impro Precision Industries Limited (the "Company") as of 30 June 2022 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

11 August 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
Revenue	4	2,192,744	1,823,930
Cost of sales		(1,549,405)	(1,325,608)
Gross profit		643,339	498,322
Other revenue	5(a)	12,624	15,119
Other net loss	5(b)	(49,597)	(37,333)
Selling and distribution expenses		(103,327)	(90,646)
Administrative and other operating expenses		(153,515)	(142,424)
Profit from operations		349,524	243,038
Net finance costs	6(a)	(18,627)	(9,998)
Profit before taxation	6	330,897	233,040
Income tax	7	(62,870)	(56,459)
Profit for the period		268,027	176,581
Attributable to:			
Equity shareholders of the Company		267,721	175,014
Non-controlling interest		306	1,567
Profit for the period		268,027	176,581
Earnings per share			
Basic (HK cents)	8(a)	14.22	9.29
Diluted (HK cents)	8(b)	14.22	9.28

The notes on pages 36 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Profit for the period	268,027	176,581
Other comprehensive income for the period (after tax adjustments)		
<i>Items that will not be reclassified to profit or loss:</i>		
Effect of remeasurement of defined benefit retirement plans obligation	(67)	(2,950)
Related tax	297	69
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong Dollars	(164,734)	26,345
Other comprehensive income for the period (after tax adjustments)	(164,504)	23,464
Total comprehensive income for the period	103,523	200,045
Attributable to:		
Equity shareholders of the Company	104,117	198,295
Non-controlling interest	(594)	1,750
Total comprehensive income for the period	103,523	200,045

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Non-current assets			
Property, plant and equipment	9	3,945,910	3,970,056
Prepayments for purchase of property, plant and equipment		52,507	54,498
Intangible assets		34,406	43,726
Deferred expenses		169,370	178,446
Other financial asset		1,647	1,722
Deferred tax assets		49,438	46,011
		4,253,278	4,294,459
Current assets			
Inventories	10	1,023,809	974,635
Trade and bills receivables	11	1,091,975	972,239
Prepayments, deposits and other receivables	12	234,816	219,889
Taxation recoverable		1,487	2,103
Pledged deposits	13(b)	2,280	–
Cash and cash equivalents	13(a)	751,667	578,964
		3,106,034	2,747,830
Current liabilities			
Bank loans	14	948,778	786,656
Lease liabilities		8,179	9,384
Trade payables	15	440,394	349,310
Other payables and accruals	16	313,427	381,650
Taxation payable		73,251	56,134
		1,784,029	1,583,134
Net current assets		1,322,005	1,164,696
Total assets less current liabilities		5,575,283	5,459,155

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Note	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Non-current liabilities			
Bank loans	14	915,395	742,249
Lease liabilities		4,501	6,565
Deferred income		138,932	140,772
Defined benefit retirement plans obligation		58,851	65,188
Deferred tax liabilities		107,786	125,000
		1,225,465	1,079,774
NET ASSETS			
		4,349,818	4,379,381
CAPITAL AND RESERVES			
Share capital	17	188,330	188,330
Reserves		4,138,750	4,167,719
Total equity attributable to equity shareholders of the Company			
		4,327,080	4,356,049
Non-controlling interest			
		22,738	23,332
TOTAL EQUITY			
		4,349,818	4,379,381

Approved and authorized for issue by the board of directors on 11 August 2022.

Lu Ruibo

Directors

Wang Hui, Ina

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company									
		Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interest	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2021		188,330	1,430,278	12,372	231,339	(8,572)	(571)	2,159,961	4,013,137	19,760	4,032,897
Changes in equity for the six months ended 30 June 2021:											
Profit for the period		-	-	-	-	-	-	175,014	175,014	1,567	176,581
Other comprehensive income		-	-	-	-	26,162	-	(2,881)	23,281	183	23,464
Total comprehensive income		-	-	-	-	26,162	-	172,133	198,295	1,750	200,045
Appropriation of dividends	17(a)	-	-	-	-	-	-	(33,899)	(33,899)	-	(33,899)
Equity settled share-based transactions	17(b)	-	-	3,520	-	-	-	-	3,520	-	3,520
Balance at 30 June 2021 and 1 July 2021		188,330	1,430,278	15,892	231,339	17,590	(571)	2,298,195	4,181,053	21,510	4,202,563
Changes in equity for the six months ended 31 December 2021:											
Profit for the period		-	-	-	-	-	-	207,766	207,766	1,490	209,256
Other comprehensive income		-	-	-	-	16,697	-	1,897	18,594	332	18,926
Total comprehensive income		-	-	-	-	16,697	-	209,663	226,360	1,822	228,182
Appropriation of dividends	17(a)	-	-	-	-	-	-	(54,616)	(54,616)	-	(54,616)
Appropriation of reserve		-	-	-	9,745	-	-	(9,745)	-	-	-
Equity settled share-based transactions	17(b)	-	-	3,252	-	-	-	-	3,252	-	3,252
Balance at 31 December 2021		188,330	1,430,278	19,144	241,084	34,287	(571)	2,443,497	4,356,049	23,332	4,379,381

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company									
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Exchange reserve	Fair value	Retained profits	Total	Non-controlling interest	Total equity
							(non-recycling) reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2022		188,330	1,430,278	19,144	241,084	34,287	(571)	2,443,497	4,356,049	23,332	4,379,381
Changes in equity for the six months ended 30 June 2022:											
Profit for the period		-	-	-	-	-	-	267,721	267,721	306	268,027
Other comprehensive income		-	-	-	-	(163,834)	-	230	(163,604)	(900)	(164,504)
Total comprehensive income		-	-	-	-	(163,834)	-	267,951	104,117	(594)	103,523
Appropriation of dividends	17(a)	-	-	-	-	-	-	(135,597)	(135,597)	-	(135,597)
Equity settled share-based transactions	17(b)	-	-	2,511	-	-	-	-	2,511	-	2,511
Balance at 30 June 2022		188,330	1,430,278	21,655	241,084	(129,547)	(571)	2,575,851	4,327,080	22,738	4,349,818

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
Operating activities			
Cash generated from operations		500,909	350,387
Tax paid		(57,873)	(39,406)
Net cash generated from operating activities		443,036	310,981
Investing activities			
Payment for the acquisition of property, plant and equipment		(420,369)	(538,666)
Payment for deferred expenses		(40,170)	(35,680)
Other cash flows arising from investing activities		26,093	3,129
Net cash used in investing activities		(434,446)	(571,217)
Financing activities			
Proceeds from bank loans		876,756	486,857
Repayment of bank loans		(524,131)	(377,599)
Interest paid		(20,390)	(11,790)
Dividends paid to equity shareholders of the Company	17(a)	(135,597)	(33,899)
Capital element of lease rentals paid		(4,852)	(17,507)
Interest element of lease rentals paid		(357)	(725)
Net cash generated from financing activities		191,429	45,337
Increase/(decrease) in cash and cash equivalents		200,019	(214,899)
Cash and cash equivalents at 1 January	13	578,964	601,985
Effect of foreign exchange rate changes		(27,316)	355
Cash and cash equivalents at 30 June	13	751,667	387,441

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

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

2 BASIS OF PREPARATION

This interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorized for issue on 11 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

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

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendment to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IFRS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

Revenue	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Investment casting	933,832	748,966
Precision machining	754,796	678,979
Sand casting	380,608	247,382
Surface treatment	123,508	148,603
	2,192,744	1,823,930

The Group's revenue from contracts with customers were recognized at point in time for the six months ended 30 June 2022 and 2021. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

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

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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) *Segment results and assets*

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

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

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

	Six months ended 30 June 2022				Total HK\$'000
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	
Revenue from external customers	933,832	754,799	380,608	123,505	2,192,744
Inter-segment revenue	–	–	–	15,406	15,406
Reportable segment revenue	933,832	754,799	380,608	138,911	2,208,150
Gross profit from external customers	279,439	211,694	115,787	36,419	643,339
Inter-segment gross profit	–	–	–	5,272	5,272
Reportable segment gross profit	279,439	211,694	115,787	41,691	648,611
Depreciation and amortization	79,571	73,274	38,924	21,767	213,536
Reportable segment profit	255,836	199,340	112,959	49,727	617,862

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

	Six months ended 30 June 2021				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Revenue from external customers	748,966	678,979	247,382	148,603	1,823,930
Inter-segment revenue	–	–	–	15,090	15,090
Reportable segment revenue	748,966	678,979	247,382	163,693	1,839,020
Gross profit from external customers	214,304	181,463	59,064	43,491	498,322
Inter-segment gross profit	–	–	–	5,877	5,877
Reportable segment gross profit	214,304	181,463	59,064	49,368	504,199
Depreciation and amortization	79,780	62,632	36,268	25,476	204,156
Reportable segment profit	205,427	161,599	64,106	57,414	488,546
	As at 30 June 2022				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	2,571,409	2,191,192	1,409,169	388,701	6,560,471
	As at 31 December 2021				
	Investment casting HK\$'000	Precision machining HK\$'000	Sand casting HK\$'000	Surface treatment HK\$'000	Total HK\$'000
Reportable segment assets	2,356,384	2,117,062	1,398,011	551,066	6,422,523

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Revenue		
Reportable segment revenue	2,208,150	1,839,020
Elimination of inter-segment revenue	(15,406)	(15,090)
Consolidated revenue	2,192,744	1,823,930
Gross profit		
Reportable segment gross profit	648,611	504,199
Elimination of inter-segment gross profit	(5,272)	(5,877)
Consolidated gross profit	643,339	498,322
Profit		
Reportable segment profit	617,862	488,546
Elimination of inter-segment profit	(5,272)	(5,877)
Reportable segment profit derived from Group's external customers	612,590	482,669
Other revenue	12,624	15,119
Other net loss	(49,597)	(37,333)
Unallocated head office and corporate expenses	(12,557)	(13,261)
Consolidated profit before interest, taxes, depreciation and amortization	563,060	447,194
Net finance costs	(18,627)	(9,998)
Depreciation and amortization	(213,536)	(204,156)
Consolidated profit before taxation	330,897	233,040

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Geographical information

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

Revenue from external customers

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Americas		
— United States of America ("United States")	963,076	659,239
— Others	83,316	58,606
Europe	672,254	606,564
Asia		
— The People's Republic of China ("PRC")	417,316	456,123
— Others	56,782	43,398
	2,192,744	1,823,930

Specified non-current assets

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
United States	6,494	8,294
Europe	511,916	544,688
The PRC	2,446,340	2,681,532
Mexico	1,239,090	1,013,934
	4,203,840	4,248,448

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Rental income	76	53
Government grants	10,253	12,270
Others	2,295	2,796
	12,624	15,119

(b) Other net loss

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Net exchange gain/(loss)	25,544	(6,993)
Net gain/(loss) on disposal of property, plant and equipment	17,826	(399)
Loss on a fire incident*	(93,697)	–
Severance costs	–	(30,220)
Others	730	279
	(49,597)	(37,333)

* On 4 June 2022, there was a fire incident in one of the production buildings of the Group's surface treatment plant in Nantong, Jiangsu Province, PRC. A loss of HK\$93,697,000 was recorded in the consolidated statement of profit or loss during the six months ended 30 June 2022 mainly for the impairment of property, plant and equipment and scrapped inventories due to the fire incident.

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Interest income	(1,775)	(2,472)
Interest expenses on bank loans	20,045	11,745
Interest expenses on lease liabilities	357	725
	20,402	12,470
Net finance costs	18,627	9,998

(b) Other items

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Cost of inventories recognized as expenses*	1,549,405	1,325,608
Depreciation charges		
— owned property, plant and equipment	154,903	150,785
— right-of-use assets	10,296	10,763
Amortization of intangible assets	6,900	7,324
Amortization of deferred expenses	41,437	35,284
Research and development expenses	70,641	66,343
Reversal of impairment loss on trade and other receivables	(1,613)	(197)
(Reversal)/provision for write-down of inventories	(7,059)	2,736

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Current tax — Mainland China Corporate Income Tax		
— Provision for the period	16,842	21,916
— Bonus deduction of research and development expenses	(8,444)	(10,751)
— (Over)/under-provision in respect of prior years	(761)	1,604
Current tax — Hong Kong Profits Tax	29,499	4,734
Current tax — Tax jurisdictions outside Mainland China and Hong Kong	37,331	46,010
	74,467	63,513
Deferred taxation	(11,597)	(7,054)
	62,870	56,459

The provision for Mainland China income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the Mainland China as determined in accordance with the relevant income tax rules and regulations of the Mainland China. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2021: 16.5%) to the six months ended 30 June 2022. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8 EARNINGS 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\$267,721,000 (six months ended 30 June 2021: profit attributable to ordinary equity shareholders of the Company of HK\$175,014,000) and the weighted average of 1,883,295,000 ordinary shares (2021: 1,883,295,000 shares) in issue during the interim period.

(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\$267,721,000 (six months ended 30 June 2021: profit attributable to ordinary equity shareholders of the Company of HK\$175,014,000) and the weighted average of 1,883,295,000 ordinary shares (2021: 1,884,990,905 shares).

For the six months ended 30 June 2022 and 2021, the Company has the outstanding share options under the Company's share option scheme as the dilutive potential ordinary shares. During the six months ended 30 June 2022, the dilutive potential ordinary shares were not included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive. Accordingly, diluted earnings per share was the same as basic earnings per share of the six months ended 30 June 2022.

9 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2022, the Group entered into a new lease agreement for use of property, and therefore recognized the additions to right-of-use assets of HK\$1,813,000.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2022, the Group acquired items of property, plant and equipment at a cost of HK\$353,311,000 (six months ended 30 June 2021: HK\$489,755,000). Items of property, plant and equipment with a net book value of HK\$20,328,000 were disposed of during the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$1,030,000), resulting in a gain on disposal of HK\$17,826,000 (six months ended 30 June 2021: a loss on disposal of HK\$399,000).

(c) Impairment losses

During the six months ended 30 June 2022, a number of machines were physically damaged during a fire incident in one of the production buildings of the Group's surface treatment plant. An impairment loss of HK\$79,862,000 was recognized in the "other net loss".

10 INVENTORIES

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Raw materials	261,657	239,470
Work in progress	357,491	379,128
Finished goods	474,543	436,275
	1,093,691	1,054,873
Write down of inventories	(69,882)	(80,238)
	1,023,809	974,635

During the six months ended 30 June 2022, the Group reversed a write-down of HK\$7,059,000 (six months ended 30 June 2021: provided a write-down of HK\$2,736,000) against those inventories with net realizable value higher than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 TRADE AND BILLS RECEIVABLES

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Trade receivables	1,019,330	894,714
Bills receivable	82,418	89,081
	1,101,748	983,795
Less: loss allowance	(9,773)	(11,556)
	1,091,975	972,239

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

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Within 1 month	865,522	745,331
1 to 3 months	189,306	197,914
Over 3 months but within 12 months	37,147	28,994
	1,091,975	972,239

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

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Prepayments	53,601	51,316
Value added tax recoverable	150,445	126,629
Other deposits and receivables	30,770	41,944
	234,816	219,889

13 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

(a) Cash and cash equivalents comprise:

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Cash at bank	751,302	578,633
Cash on hand	365	331
	751,667	578,964

As at 30 June 2022, cash and cash equivalents situated in Mainland China amounted to HK\$588,507,000 (2021: HK\$449,160,000). Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control.

(b) Pledged deposits comprise:

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Pledged deposits for — issuance of letters of credit	2,280	—

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

14 BANK LOANS

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Short-term bank loans	606,111	525,580
Current portion of long-term bank loans	342,667	261,076
Within 1 year or on demand	948,778	786,656
After 1 year but within 2 years	529,994	348,726
After 2 years but within 5 years	385,401	393,523
	915,395	742,249
	1,864,173	1,528,905

As at 30 June 2022 and 31 December 2021, none of the Group's bank loans were secured.

Certain banking facilities of the Group are subject to the fulfilment of financial covenants relating to certain of the financial ratios of the Group or the subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. As at 30 June 2022 and 31 December 2021, none of the covenants relating to drawn down facilities had been breached.

15 TRADE PAYABLES

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Trade payables	440,394	349,310

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

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Within 1 month	227,354	197,506
1 to 3 months	193,368	138,598
Over 3 months	19,672	13,206
	440,394	349,310

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

16 OTHER PAYABLES AND ACCRUALS

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Other payables (Note)	257,916	328,687
Accrued expenses	55,511	52,963
	313,427	381,650

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

Note:

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Deferred consideration payable	23,207	24,274
Salaries, wages, bonus and benefits payable	93,483	108,375
Payables for purchase of property, plant and equipment	38,651	105,885
Contract liabilities	9,563	5,712
Other tax payable	17,118	14,846
Maintenance costs payable	2,906	4,845
Freight costs payable	27,000	19,259
Others	45,988	45,491
	257,916	328,687

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Interim dividend declared after the end of each reporting period of HK\$0.08 per share (six months ended 30 June 2021: HK\$0.029 per share)	150,664	54,616

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

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK\$ nil per share (six months ended 30 June 2021: HK\$0.018 per share)	–	33,899
Second interim dividend in respect of the previous financial year, approved and paid during the interim period, of HK\$0.072 per share (six months ended 30 June 2021: HK\$ nil per share)	135,597	–
	135,597	33,899

(b) Equity settled share-based transactions

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

No options were exercised during the six months ended 30 June 2022 (2021: nil).

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 COMMITMENTS

Capital commitments outstanding at 30 June 2022 not provided for in the interim financial report

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Contracted for	233,330	322,101
Represented by:		
Construction of plants	107,394	115,717
Acquisition of machinery	125,936	206,384
	233,330	322,101

19 BUSINESS COMBINATION

On 1 June 2022, Impro Aerotek Limited, a wholly-owned subsidiary of the Group conditionally agreed to acquire the entire equity interest of Foshan Ameriforge Manufacturing Technology Co., Ltd., which is a company principally engaged in manufacturing, testing, assembling and special processing of parts and assemblies in the PRC at a consideration of RMB59,270,000 (equivalent to approximately HK\$69,306,000). As of the date of the report, the acquisition has not yet been completed.

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) Pursuant to the board meeting on 11 August 2022, the directors resolved to declare an interim dividend of HK\$0.08 per share. Further details are disclosed in Note 17(a).
- (b) On 5 July 2022, Impro Fluidtek Limited, a wholly-owned subsidiary of the Group conditionally agreed to acquire the entire equity interest of Danfoss Power Solution (Jiangsu) Co., Ltd., which is a company principally engaged in research and development, manufacturing, distribution and sales of hydraulic orbital motors in the PRC, from an independent third party at a consideration of EUR65,000,000 (equivalent to approximately HK\$532,684,000). As of the date of the report, the acquisition has not yet been completed.